BONUSES AND SPECIAL PAY

HEARING

BEFORE THE

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OF THE

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BONUSES AND SPECIAL PAY

THURSDAY, NOVEMBER 19, 1981

U.S. SENATE,
SUBCOMMITTEE ON MANPOWER AND PERSONNEL,
COMMITTEE ON ARMED SERVICES,
Washington, D.C.

The subcommittee met, in open session, at 10:35 a.m., pursuant to notice, in room 212, Russell Senate Office Building, Senator Roger W. Jepsen, chairman, presiding.

Present: Senators Jepsen and Byrd of Virginia.

Staff present: David S. Lyles and Anthony J. Principi, professional staff members; Richard D. Finn and Ralph O. White, Jr., research assistants; and Jacquie S. O'Grady, staff assistant.

Also present: Jon Etherton, assistant to Senator Jepsen, Frank Krebs, assistant to Senator Cannon; Gray Armistead, assistant to Senator Byrd; and Don Imgram, assistant to Senator Quayle.

OPENING STATEMENT BY SENATOR ROGER W. JEPSEN, CHAIRMAN

Senator JEPSEN. The Manpower and Personnel Subcommittee hearing on bonuses and special payments will now begin. I will make an opening statement.

The Subcommittee on Manpower and Personnel meets today to receive testimony on the use of special payments as incentives to attract and retain sufficient numbers of people to man the force.

During the past few years the services have relied more heavily on special payments, such as enlistment and reenlistment bonuses, to meet the severe manning problems confronting the military. Since 1975 the dollar value of new payments has risen from $172 million to $695 million. The number of recipients and payments has also increased significantly during the same period. Today's hearing has been called to reexamine this category of military compensation, its cost effectiveness, and interrelationship with a military pay structure anchored in institutionalism.

There is no question that manning the All-Volunteer Force during the decade of the 1980's with quality recruits and skilled careerists will to varying degrees pose problems. Recent compensation initiatives, a weakened economy and renewed patriotism have eased current shortfalls. In fact, I read in the paper this morning an announcement that all services had met all of their quotas.

I am convinced, however, that we can no longer afford to react in a piecemeal and costly manner every time a manpower problem falls upon us. Let us attempt to identify the problems that lie ahead and chart a course of action that will resolve them in a cost-effective manner. Manpower costs consume the bulk of the defense budget, with

little left to insure that our forces have modern equipment to carry into combat.

The rationale underlying the current military compensation system is found in the very nature of the U.S. Armed Forces—the Military Establishment is an institution rather than an occupation. The distinction has been put, vividly, "A civilian works for General Motors but a career soldier is in the Army."

The military's system of values—chain of command, clear lines of authority and responsibility—dictate that no distinction between persons of equal rank and length of service be made for the purposes of pay. Accordingly, a mess specialist or office clerk in pay grade E–6 should receive the same total compensation as a nuclear power trained engineer in the same pay grade.

Unfortunately, today's modern military is unable to retain the nuclear-power-trained petty officer, but in many cases has sufficient numbers of clerical and administrative workers. As we all know, there is currently a great demand for the military's technically skilled in the private sector with concomitant salaries and benefits. This was not the case many years ago when the military was composed primarily of unskilled, cadre-type forces. There was no need to compare military and civilian pay systems in order for the military to compete with industry.

Most of the jobs in the military—infantry and seamanship—were without civilian parallel. I am sure that you would agree that the makeup of today's military is vastly different from the one that existed at the time the pay structure was created. As a result, the military has found itself caught in a dilemma. How do you preserve the present system of compensation, which is the most powerful manpower policy instrument yet also one most deeply anchored in tradition, and keep pace with the changing needs of the Armed Forces?

The answer appears to be two pay structures. One, an institutional one where rank and length of service determine basic salary, and a second, quasi-institutional system designed to create pay differentials, thus making skill groups in and out of the service comparable. This quasi-institutional structure also contains myriad other incentive and hazardous duty pay to meet management objectives.

Is this present system the most reasonable and cost-effective means of accomplishing military manpower objectives? I truthfully don't know, but I do believe the time has come for this committee to find out. I intend to do just that. If it is cost effective and necessary to continue with the current system, we should take steps to enhance it. If it is not that, I shall recommend to my colleagues that it be changed.

The Armed Services Committee is the authorizing body and its responsibilities should not be deferred to any other committee.

I am pleased to welcome back before the subcommittee Lt. Gen. Dean Tice, U.S. Army, Deputy Assistant Secretary of Defense for Military Personnel and Force Management; and Dr. Kenneth Coffey, Associate Director, Federal Personnel and Compensation Division, U.S. General Accounting Office; also, Rear Admiral Hogg of the Navy, Maj. Gen. William R. Usher of the Air Force, Brigadier General Lukeman of the Marines, and Brigadier General Connelly of the Army.

I would like to start a very serious meeting with a little bit of levity. General Tice gave me a description of a congressional hearing wit-

ness: "Short of meat-packing and fish-canning, there are few processes as one sided and unfair to the invitees as a congressional hearing. The committee picks the witnesses and decides how long they get to talk. Members can interrupt at will, get up and leave in midsentence, call the witnesses all kinds of names. The witness can't talk, leave, or go to the bathroom without permission. He does, however, get a pitcher of warm water and a glass."

Before we get into midsentence, please bear with me. We will take a 5-minute recess and then we will open the hearing for testimony.

Senator BYRD [presiding]. The subcommittee will come to order.

First, I want to thank Senator Jepsen, the chairman, for calling this meeting this morning.

Last year, in the fiscal year 1981 Defense Authorization Act, Congress increased the maximum enlistment bonus from $3,000 to $5,000, at the request of the Department of Defense. Only a few months after Congress approved this increase, the Department of Defense was back, this time asking Congress to raise the maximum enlistment bonus to $10,000.

In our committee hearings earlier this year it became clear to me that the Department of Defense was not able to answer many of the questions this committee raised as to why such a large increase was necessary. The Department's handling of this issue raised serious questions in my own mind concerning the management and effectiveness of the various bonus programs within the Department of Defense.

During the full Armed Services Committee's consideration of the fiscal year 1982 military pay bill earlier this year, I asked Chairman Tower for an independent investigation by the committee staff into the effectiveness of the Department of Defense's enlistment bonus program. I am pleased that our subcommittee is taking up this issue, for I am sure this hearing will be an important step in the staff investigation.

I want to emphasize that I am dealing only with enlistment bonuses and I hope that the witnesses will deal with enlistment bonuses.

Now, the reenlistment bonus, of course, is something entirely different and I support the reenlistment bonuses.

I look forward with interest to the testimony of the witnesses this morning. I will have a few questions to ask them when they have finished their statements. I may have some questions which I will ask the witnesses to answer for the record.

Gentlemen, how would you wish to proceed?

STATEMENT OF LT. GEN. R. DEAN TICE, USA, DEPUTY ASSISTANT SECRETARY OF DEFENSE FOR MILITARY PERSONNEL AND FORCE MANAGEMENT; ACCOMPANIED BY REAR ADMIRAL HOGG, BONUS PAY PROGRAM MANAGER, U.S. NAVY; MAJ. GEN. WILLIAM R. USHER, USAF, DIRECTOR, PERSONNEL PLANS, DCS/MP, U.S. AIR FORCE; BRIGADIER GENERAL LUKEMAN, USMC, BONUS PAY PROGRAM MANAGER, U.S. MARINE CORPS; AND BRIGADIER GENERAL CONNELLY, USA, BONUS PAY PROGRAM MANAGER, U.S. ARMY

General TICE. I have a short opening statement. I will insert the prepared statement for the record, if the chairman will permit.

Senator BYRD. That is fine.

General TICE. I am accompanied by Admiral Hogg from the Navy, General Usher from the U.S. Air Force, Brigadier General Lukeman from the U.S. Marine Corps, and General Connelly from the Army, who are the program managers of the bonus programs within their services.

We appreciate this opportunity to appear before your committee on behalf of the Department of Defense to discuss our bonus——

Senator BYRD. Can I stop you there? Can't we confine this to the enlistment bonus? It would have been much more helpful to the committee, certainly to this Senator, if we dealt with enlistment bonuses and not get mixed up with the reenlistment bonuses and the other program you mention.

General TICE. Yes, sir. I can give you the enlistment bonus part of my statement and then we can go to the questions.

I will discuss the mechanics of the bonus programs and address the frequent question of the cost effectiveness of these programs.

ENLISTMENT BONUS PROGRAM

General TICE. To qualify for an enlistment bonus, an individual must be a high school graduate in Mental Aptitude Category III or higher. The enlistee must also sign an enlistment contract for 1 to 2 years more than the minimum contract to be eligible for receipt of an enlistment bonus.

Senator BYRD. What is the minimum contract?

General TICE. The minimum contract for the Army is 2 years. For the Air Force and the Navy and the U.S. Marine Corps it is 4 years.

Senator BYRD. To be eligible?

General TICE. You have to be a high school graduate and you must have attained on the Armed Service Vocational Aptitude battery scores high enough to place you in the top three mental categories. You must enlist for a time greater than the minimum authorized for enlistment.

Senator BYRD. Time meaing how much greater?

General TICE. The Army has a 2-year enlistment. The bonuses were paid last year to those who enlisted for 4 years.

As you know, Senator Byrd, we have authority this year to conduct a special test for the enlistment bonus program which would allow the Army to conduct a very controlled test to determine the effects of paying differing sums of money for 3 year and 4 year enlistments to determine what the relative advantages are from a cost-effective basis.

Senator BYRD. The Army pays enlistment bonuses to those who enlist for 3 years?

General TICE. Last year, no, sir, 4 years only.

Senator BYRD. What about the previous year?

General TICE. The previous year was 4 years only.

Senator BYRD. You haven't paid enlistments for 3 years?

General TICE. No, sir.

Senator BYRD. Excuse me for interrupting.

General TICE. Let me repeat that statement: An enlistee must sign an enlistment contract for 1 to 2 years more than the minimum contract to be eligible for receipt of an enlistment bonus.

Senator BYRD. That seems to contradict your other statement. You said 1 to 2 years more than the minimum contract would be——

General CONNELLY. It is 3 years and 4 years. We do not pay the bonus right now for anybody who enlists for less than 4 years. A person could enlist for 2 years without a bonus. To get the bonus, he would have to enlist for 4 years.

Senator BYRD. This statement says 1 to 2 years.

General TICE. 1 to 2 years more than the normal contract would be.

Senator BYRD. The normal contract is 2 years?

General TICE. That is not a normal contract. In the Air Force you must enlist for 6 years in order to qualify for enlistment bonus. In the Marine Corps you must enlist for 6 or 4 years in order to qualify for the bonus. In the Navy you must enlist for 5 or 6 years in order to qualify for the bonus. Each service has its own criterion for the enlistment bonus program, sir.

Senator BYRD. I understand now.

General TICE. So, the statement is true. You must enlist for at least 1 more year than the minimum contract, or up to 2 more years than the minimum contract, in order to qualify for the enlistment bonus.

Senator BYRD. I am confused in this respect: You mentioned that there is a 2-year enlistment and then you mentioned 3-year enlistment. Now, which is which?

General TICE. The Army is experimenting with 2-year enlistments, but normal enlistments are for 3 years and 4 years, sir.

Senator BYRD. Does the recruiting officer today enlist for 2 years or enlist for 3 years?

General TICE. There is a very limited program for the Army that entails, only 57 MOS's for a 2-year enlistment. For all others, it is 3 or more years for the U.S. Army.

For the Air Force, the Navy and the Marines, the minimum enlistment is 4 years.

To qualify for a bonus, you must agree to serve 1 more or 2 more years, depending on the skill you are enlisting for, sir.

Senator BYRD. Thank you.

General LUKEMAN. We still enlist some marines—about 30 percent for 3 years, the other 70 percent for 4 years.

General TICE. But to qualify for the bonus you must make an additional commitment for 1 or 2 years more than whatever that minimum enlistment is.

General LUKEMAN. So, the minimum for a bonus is 4.

General TICE. Thus the enlistment bonuses are cost effective, giving us recruits of high quality for a longer enlistment period with less attrition.

Selection of the skills to be paid an enlistment bonus is the result of an annual review by OSD and the services. Each service submits to the OSD their proposed program of bonuses in terms of skills in which they desire to pay enlistment bonuses and in levels of bonus payments.

In OSD we review those proposals, looking primarily at past difficulty attracting people to that skill, numbers of people in the delayed enlistment program, DEP, the first-term manning in that skill, and future recruitment requirements.

This review is done for each skill in which a bonus is paid. The program is built from the bottom up and does not begin with a total dollar target.

Enlistment bonuses are paid in a lump sum at the end of skill training; thus, the individual does not receive his bonus until qualified to perform the skill for which it is being paid and the problem of recouping unfulfilled contracts is minimized.

The Department of Defense is appreciative of the improvements to the enlistment bonus program made possible by Congress enactment of the Uniformed Services Pay Act of 1981. This more flexible authority permits payment of bonuses to high quality individuals enlisting for 3 and 4 years in critical skills while maintaining higher levels of payment for longer terms of enlistment in the most difficult to fill critical skills. The result should be increases where the increases are needed.

As directed by Congress, the OSD will carefully design and administer a test using the full range of enlistment bonuses authorized to test the effectiveness of various bonus levels for 4-year enlistments, various bonus levels for 3-year enlistments, and the interaction between the 3- and 4-year bonus programs.

The report of the results of this test will be furnished by March 1, 1983.

That concludes my short statement on enlistment bonuses.

[The prepared statement of General Tice follows:]

PREPARED STATEMENT OF LT. GEN. R. DEAN TICE, DEPUTY ASSISTANT SECRETARY OF DEFENSE FOR MILITARY PERSONNEL AND FORCE MANAGEMENT

Mr. Chairman and Members of the Subcommittee: We appreciate this opportunity to appear before your Committee on behalf of the Department of Defense to discuss our bonus programs for enlisted personnel of the active force. Enlistment bonuses, reenlistment bonuses, and proficiency pays are special pays used by each of the Services as incentives to attract, motivate, and retain military personnel in specific positions at specific places and times. The enlistment bonus is an incentive to attract young people to enlist in military skills that are unappealing or in short supply. The Selective Reenlistment Bonus (SRB) is an incentive to soldiers, sailors, airmen, and marines to reenlist in selected military skills where shortages are severe or replacement costs are extraordinarily high. Proficiency pay is primarily an inducement for personnel to volunteer for certain special duty assignments outside their normal career field. Proficiency pay is also used in addition to the reenlistment bonus in chronically short enlisted skills where particular experience is required. These incentives are a highly effective means to insure that required personnel levels are achieved and maintained to support a mission-ready force. Today I will review the purpose of these programs; the relationship to military compensation; program trends, cost effectiveness, history, and detail; recoupment; new initiatives and the program outlook for fiscal year 1983 and beyond.

PURPOSE OF THE ENLISTED BONUS PROGRAMS

Bonuses and proficiency pay are highly flexible and efficient means of improving recruiting and retention because compensation dollars are applied directly to specific recruiting and retention problems.

Enlistment bonus levels and the skills for which bonuses are offered can be adjusted to changes in supply and demand; the bonus can be promoted to satisfy the needs and desires of the quality youth population; and to a segment of the market, the bonus offers an immediate payoff which is often valued more highly than a similar benefit that is received some time in the future. Reenlistment bonuses improve retention in selected skills where shortages are severe or where replacement costs are extraordinarily high.

Experience and research have shown that selective bonuses provide a flexible and cost-effective means of competing for critical military skills in the labor market. However, I would stress that the Department is not placing complete reliance on monetary incentives to resolve the manpower problems facing us in the volunteer environment. We recognize that all options must be considered to decrease requirements for and increase the supply of Non-Prior Service (NPS) male enlistees. Among the actions that have been taken are: reducing first-term attrition; lengthening initial terms of enlistment; recruiting women; increasing retention; and enlisting additional prior service personnel.

Bonuses are intended primarily to manage personnel inventories in specific situations where other methods have proven inadequate or impractical. In solving inventory control problems, the Department must consider bonus use in relation to overall skill, training and utilization requirements. To pay bonuses when less costly actions could be used with equal effectiveness would be inefficient and wasteful, but failure to employ bonuses would be ineffective management. Monetary enlistment and reenlistment incentives are a vital element of personnel inventory control but are not a substitute for good planning and management. Within overall funding constraints, budget requests for bonuses are formulated on the determined need to apply an incentive to meet the requirements of a skill, considering the improvement to be expected from the award.

RELATIONSHIP TO THE MILITARY COMPENSATION SYSTEM

The bonus system employs the proven practice of a wage differential system and recognizes the interrelationships of compensation and effective personnel management. While differentials are normally achieved in industry and Government through adjustments in the pay scale for specific skill groups, the method used by the Department of Defense employs special pay incentives within the institutional concept of a common basic pay scale. Because this method avoids increases in retirement costs, the life cycle cost is lower. Moreover, bonuses can easily be removed from skills for which the supply becomes adequate. To the extent that regular military compensation fulfills the accession and retention requirements of the enlisted personnel management system, additional incentives would not be necessary. The Department of Defense has found that reasonable differential incentives must be available to attract and retain enlisted personnel with special aptitudes and qualifications for undermanned, critical skills.

The improvements in military compensation in the last year have greatly improved total enlisted accession and retention. Still, many skills, because of their arduous nature—such as combat arms skills—or the high level of competition from civilian industry—such as electronics, nuclear, and computer skills—require the additional accession and retention incentives provided by the bonus program. The bonus program is not a substitute for an adequate compensation system—in fact, the bonus program can only operate effectively given an adequate compensation base. The bonus program is not in competition with other compensation mechanisms but is an integral part of our total compensation system.

The military has an institutional pay system based on grade and length of service. Within this system, levels of compensation must be such that all military are "haves." No institution, especially the military, can afford a class of "have-nots." Adequate pay is needed in all skills to keep shortages from developing. Bonuses and special pay incentives are needed in elected shortage skills to give accession and retention in these skills the additional boost not provided by the overall pay level. Bonuses have been a major consideration in developing initiatives to sustain the All-Volunteer Force in the eighties. Within the current authorities, we have programmed additional resources for wider use of bonuses in fiscal year 1982 as a counter to quality accession and career retention shortfalls experienced in earlier years.

PROGRAM TRENDS

Figures 1 and 2 are a historical picture of the reenlistment and proficiency pay programs. Figure 1 portrays both programs in current dollars. The total program had its zenith in the pre-All-Volunteer Force days and then began to wither through 1978. This decrease resulted from the belief that the challenge of the volunteer era would be in recruiting and not in retaining a career force

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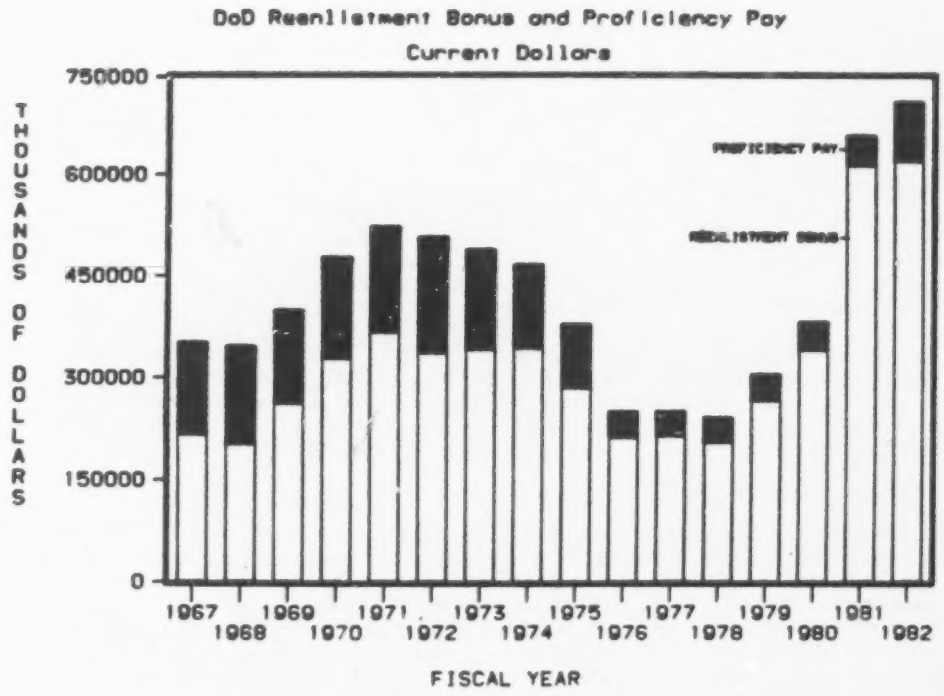

FIGURE 1

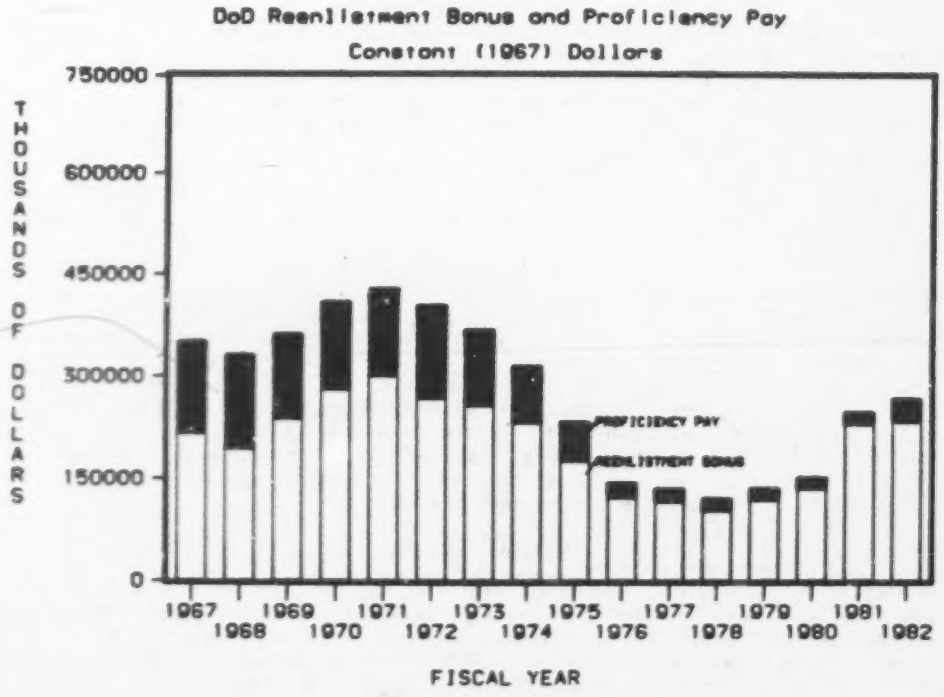

FIGURE 2

of NCOs and Petty Officers. But as reenlistment rates of our most experienced people declined, additional reenlistment bonus money was obligated beginning in 1979. To some, reenlistment bonuses and proficiency pay programs have grown greatly. However, if one views these same pays in constant rather than current dollars, the picture is different (Figure 2). The total reenlistment bonus and proficiency pay program is still substantially less than the program of the pre-AVF era. This is not to imply that these programs have to be at a level comparable to the pre-AVF era. Rather, the bonus programs need to be adeqaute to accomplish their goals—accession and retention of personnel in particular skills where inducements are needed.

COST EFFECTIVENESS

We are frequently asked if the bonus programs are cost effective. I believe we can show conclusively that they are.

First, the enlistment bonus program. To qualify for an enlistment bonus, an individual must be a high school graduate in Mental Aptitude Category III or higher and must sign for a longer initial enlistment—one to two years more than the minimum contract. Thus enlistment bonuses give us recruits of high quality for longer enlistment periods. Enlistment bonuses also serve as a mechanism to expand the high quality recruiting market.

The Rand Corporation, the General Accounting Office (GAO) the Center for Naval Aanlyses, and other research groups have extensively analyzed the effectiveness of the reenlistment bonus. All have found it to be cost effective. Numerous Service examples exist of the effectiveness of the SRB. For example, as shown in Table 1, significant SRB program increases in the aircraft maintenance skills, which represent about 25 percent of the Air Force's enlisted population, have occurred. The impact of these increases is dramatic—a 15 percent point increase in first-term reenlistment rates and nearly a 14 percentage point increase in term reenlistment rates from fiscal year 1980 to fiscal year 1981.

TABLE 1

	Fiscal year—			
	1979	1980	1981	1982
Number of USAF SRB skills (42 total skills in maintenance field)		13	38	39
SRB funding for maintenance skills		$2M	$33M	$50M
Reenlistment rates (maintenance skills):				
1st term (percent)	32.6	27.1	42.7	
2d term (percent)	58.1	60.2	73.9	

PROGRAM HISTORY AND DETAIL

I will now describe the history and basic mechanics of each of the programs being addressed in this hearing, beginning with the enlistment bonus.

ENLISTMENT BONUS

The Department first used an enlistment bonus in June 1972 when a $1,500 was offered to all Army and Marine combat arms volunteers who enlisted for four years. From the initiation of the bonus through January 1973, the number of monthly ground combat arms enlistments in the Army increased by about 28%. However, when recruiting emphasis was placed on increasing the proportion of high school graduate enlistments, Army ground combat arms enlistments fell off significantly. Therefore, effective May 1, 1973, the bonus payment was increased to $2,500 for high school graduates and terminated for non-graduates in order to meet the Army's objectives in both quality and quantity. The total costs of the $2,500 bonus for high school graduates were virtually the same as the $1,500 formerly offered to all combat arms enlistees and the program was more effective.

During May and June 1973, use of the bonus was briefly extended as a test to certain Army technical specialties in the noncombat elements in which shortages existed. This was the first use of the enlistment bonus in technical skills with high training cost. The test provided valuable management experi-

ence and information and materially assisted in correcting an immediate problem in the Army. Results of the two months test showed that 906 personnel were recruited for the tested skills; 609 of these enlisted for a period of four years in order to receive a $2,500 bonus compared to the 297 who volunteered for a three-year period in the same skills without the bonus. During the comparable period in 1972, without the bonus only 352 enlistments were attained in these same skills. Thus the bonus enabled the Army to fill 100 percent of the "school seats" for these unpopular "hard to recruit" skills and at the same time to increase the length of the terms of service in these skills.

Recognizing the demonstrated capability of the enlistment bonus to channel enlistees into the ground combat arms and to encourage four year enlistments, Congress provided the Secretary of Defense with expanded bonus authority effective June 1, 1974. We now have the results from seven years of carefully controlled application of the expanded bonus authority to the ground combat, combat support and certain technical skills in all four Services. The Enlistment Bonus has proven to be an effective tool in reducing manpower shortages and stabilizing the active force by obtaining higher quality personnel for longer periods of service which reduces turnover and saves training costs for replacement personnel. The Army was authorized to offer the $3,000 bonus level for the first time in January 1979 as a test in the Armor career field. The success of the test led to continuing the $3,000 level in the Armor field and expansion to three additional combat arms and five critical intelligence skills. In FY 1981 the Army offered bonuses of up to $5,000 in 43 combat arms and technical skills. The Marine Corps offered $2,500 bonuses to combat arms enlistees and $3,000 for some technical skills, primarily avionics and communications. Until recently, the Navy program was limited to a $2,000 bonus for Boiler Technicians. In December 1979, the program was expanded to include the nuclear power field at the $2,000 level, and 11 other highly technical ratings at the $1,500 level. Prior to FY80 the Air Force had not used the Enlistment Bonus. However, in FY80 the Air Force initiated payment of the Enlistment Bonus in three skills suffering from critical recruitment shortfalls—voice processor (linguist), explosive ordnance disposal, and audio communications analysis. In all Services the enlistment bonus has been paid in a lump sum at the conclusion of training.

Selection of the skills to be paid an enlistment bonus is the result of an annual review by OSD and the Services. Each Service submits to the OSD their proposed enlistment bonus skills and levels of bonus payments ($1,000 to $8,000). In OSD we review these proposals, looking primarily at past difficulty in attracting people to that skill, numbers of people in the delayed-Enlistment program (DEP), the first-term manning in that skill, and future recruitment requirements. This review is done for each skill in which a bonus is paid. Thus, the program is built from the bottom up and does not begin with a total dollar target. A summary of the enlistment bonus program for FY 1982 is shown in Table 2.

TABLE 2.—SUMMARY OF FISCAL YEAR 1982 ENLISTMENT BONUS PROGRAM

Fiscal year 1982 (Budget)	Army	Navy	Marine Corps	Air Force	DOD
Total program (millions)	$89.0	$12.5	$10.9	$3.8	$116.2
Average payment	$3,364	$1,693	$3,227	$1,278	$2,904
Percent of enlistees receiving	20	8	8	2	12
Skills in which paid:					
Number	50	13	63	7	133
Percent of total service skills	15	11	16	3	12

The Department of Defense is appreciative of the Congress for its enactment of the Uniformed Services Pay Act of 1981 which authorized an increase from a maximum of $5,000 to $8,000 for a 4-year enlistment. Additionally, the new pay legislation authorized up to a $4,000 bonus for a 3-year enlistment in the Army. This more flexible program will permit DoD to quickly react to future recruiting and manning problems that may arise in light of an improving economy and decreased youth cohorts in the 1980s. Thus, the result should be increases in higher quality enlistments where and when the increases are needed. These increased bonus authorities will be used sparingly by the Services. Except for the purposes of the enlistment bonus test, no Service will be using the maximum authorities at the beginning of the recruiting year.

As directed by Congress, the OSD will carefully design and administer a test using the full range of enlistment bonuses authorized to test the effectiveness of various bonus levels for 4-year enlistments, various bonus levels for 3-year enlistments, and the interaction between the 3 and 4-year bonus programs. The report of the results of this test will be furnished by March 1, 1983.

SELECTIVE REENLISTMENT BONUS

I will now discuss the Selective Reenlistment Bonus which is a key element of our program to increase career retention. Sustaining the All-Volunteer Force depends on our ability to retain high quality soldiers, sailors, airmen and marines. Reenlistments must occur at levels which provide a force of experienced career military personnel—people critical to the operation and maintenance of an increasingly complex military force. We are encouraged by the increase in the rate of first-term reenlistments we have experienced in recent years. However, in the 1970s we saw a significant decline in the retention of our most experienced enlisted personnel. The problem was particularly serious at the second reenlistment point and was further aggravated by abnormal peaks in the number of people reaching retirement eligibility. This problem has been most severe in the Navy where retention has been particularly acute in many critical sea-going ratings.

Our research indicates that economic considerations are a primary contributor to career retention. The Selective Reenlistment Bonus is the most efficient and effective monetary incentive for increasing retention in specific skills. Analysis reveals that if the factors of job satisfaction, employment opportunities in the civilian market, and the personal considerations of the member are held constant, a very close relationship emerges between a decline in reenlistment rates and the decreased value of the maximum bonus payment in constant 1974 dollars.

The practice of paying a bonus to enlisted personnel for reenlisting dates back to 1775 when Congress enacted a bonus for both enlisting and reenlisting. Since that time a bonus for reenlisting has been continuously paid with the exception of a period during the depression of the thirties when it was suspended as an economy measure. Currently, the only reenlistment bonus being paid in an active status is the Selective Reenlistment Bonus. However, two other bonuses, the Regular Reenlistment Bonus and the Variable Reenlistment Bonus, are in a saved pay or termination phase.

The Selective Reenlistment Bonus was authorized by Congress in 1974 as a replacement for the Regular Reenlistment Bonus (RRB) and Variable Reenlistment Bonus (VRB) programs which had become very expensive and were not targeting the reenlistment problems of the 1970s. The RRB was paid at reenlistment to everyone who reenlisted, up to $2,000 career maximum. The VRB was paid only at the first-term renlistment point with a maximum of $8,000. The combined total of the two bonuses could not exceed $10,000.

The Selective Reenlistment Bonus, enacted by P.L. 93–277 on May 10, 1974, combines the best features of both Regular and Variable Reenlistment Bonuses. It terminates the requirement to pay bonuses in adequately manned skills and also provides DOD authority to selectively apply a reenlistment bonus to members with less than 14 years of service who are serving in skills where retention problems exist.

Specifically, the Selective Reenlistment Bonus provides for:

Payment of a bonus based on multiples of basic pay of the reenlistee, not to exceed 6 multiples, multiplied by years of additional obligated service. The maximum bonus amount may not exceed $16,000 ($20,000 for Navy nuclear power personnel). Table 3 gives examples of how the bonus is computed for three typical reenlistments.

Bonus payments may be made at any problem reenlistment point up to 14 years of service.

Only personnel serving in skills where retention problems exist will be entitled to bonus payments.

TABLE 3.—SRB BONUS COMPUTATION EXAMPLES

Computation formula: Monthly base pay×designated bonus multiple (1 to 6 based on criticality of skill)×number of years of reenlistment=Bonus.

Zone A example: E4 (over 3 years of service) Air Traffic Control Operator, Air Force Specialty Code 272×0 (SRB=$674.70×4×4=$10,795.20).

Zone B example: E6 (over 6 years of service) Operations Specialist, Navy Rating Code OS (SRB=$878.10×6×4=$16,000.00 (maximum)).

Zone C example: E7 (over 10 years of service) Counterintelligence Agent, Army Military Occupational Specialty Code 97B (SRB=$1,056.30×2×6=$12,675.60.

NOTE: Zone A—21 months to 6 years of service. Zone B—6 to 10 years of service. Zone C—10 to 14 years of service.

The flexibility inherent in the Selective Reenlistment Bonus allows DOD to achieve maximum effectiveness in manpower retention spending. Current legislative authority for this pay is Title 37, United States Code. Section 308, which expires September 30, 1982, unless this date is extended DOD plans to ask the Congress to enact permanent legislative authority for the payment of Selective Reenlistment Bonuses.

Selection of the skills to be paid a reenlistment bonus is a result of an annual review by OSD and the Services. Reenlistment bonuses are paid only to skills with retention problems and/or manning shortages. Annually, each Service submits to the OSD their proposed programs of bonuses in terms of skills in which they desire to pay reenlistment bonuses, levels of bonus multipliers, and the zones (A, B, or C) in which they desire to offer payments. In OSD we review those proposals, looking primarily at the manning in that skill by zone, past difficulty retaining people in that skill, future manning requirements and expected improvements at various bonus levels. Key factors are replacement costs, manning shortage by zone, overall manning, and changes in requirement levels. This review is done for each skill in which a bonus is paid. Thus, like the enlistment bonus the SRB program is also built from the bottom-up. A summary of the Selective Reenlistment Bonus program for 1982 is shown in Table 4.

TABLE 4.—SUMMARY OF FISCAL YEAR 1982 SELECTIVE REENLISTMENT BONUS PROGRAM

Fiscal year 1982 (Budget)	Army	Navy	Marine Corps	Air Force	DOD
Total program (millions)	$98.2	$233.5	$61.4	$114.1	$507.3
Average payment	4,591	7,265	5,733	3,809	5,386
Percent of reenlistees receiving	36	46	44	41	39
Number of skills in which paid:					
Zone A	116	49	264	92	525
Zone B	105	55	305	66	535
Zone C	19	17	245	57	329
Percent of total service skills:					
Zone A	35	40	66	36	44
Zone B	32	45	76	26	45
Zone C	6	14	61	22	28

Note: Zone A—21 mo to 6 yr of service. Zone B—6 to 10 yr of service. Zone C—10 to 14 yr of service.

PROFICIENCY PAY

The Military Pay Act of 1958 permits the payment of up to $150 a month to an enlisted member designated as having special proficiency in a military skill, in addition to any other pay and allowances to which he is entitled.

Department of Defense implementation of the proficiency pay program evolved into a subdivision of the pay into three different categories, each with its own distinct objective; Shortage Specialty, designed to retain personnel serving in critical military skills in which retention levels are insufficient to adequately man the career force; Special Duty Assignment, designed to encourage qualified personnel to enter into duties outside their normal career fields that need to be performed by volunteers and for which there is a volunteer manning shortage; and Superior Performance, designed to reward personnel who demonstrate outstanding effectiveness in skills or duties that are not eligible for either shortage specialty or special duty assignment pay.

Shortage specialty pay was the most important category of the proficiency pay program until the Selective Reenlistment Bonus (SRB) was created and proved to be an effective incentive to reenlistment and to improve career force manning. Because of the SRB, the Secretary of Defense determined that, starting in fiscal

year 1975, shortage specialty pay would be reduced to about one-fourth its 1974 level. It is now paid only by the Navy to enlisted personnel with nuclear power, special warfare, and saturation diving specialties, and by the Air Force to enlisted physician assistants.

Special duty assignment pay is now the major proficiency pay subprogram in both numbers and dollars, and it is the only category in current use by all the Services. It is paid to personnel performing such voluntary duty as recruiter, drill instructor, or career counselor, in amounts ranging from $50 to $150 a month.

Congress removed part of the superior performance pay funds from fiscal year 1975 service budgets, resulting in drastic curtailments of such pay in fiscal year 1975. The superior performance pay subprogram was suspended completely after fiscal year 1975.

RECOUPMENT

An enlistment bonus is recoupable when the recipient voluntarily or because of misconduct fails to complete the enlistment for which the bonus was paid or loses qualification and fails to serve in the bonus skill. Since an unearned bonus is not an indebtedness until the member is actually separated, the funds available for collection at separation are generally limited to the pay and allowances which have accrued since the last regular mid-month or end of month pay period. Often there is no pay due from which recoupment may be made. If the funds available for collection are insufficient, an indebtedness account is established and collection procedures are invoked.

Over the past six years (fiscal years 1975–1980) the Army has paid enlistment bonuses totaling $243.0M. Of this total amount paid out, $11.7M or 5 percent to date has been designated as recoupable and $1.4M or 12 percent of this was recouped at the time the members were discharged. As directed by the Congress, OSD will submit a report on recoupment procedures by December 31, 1981.

Recoupment of SRB payments is not a major problem as very few career personnel attrit.

PROGRAM OUTLOOK FOR FISCAL YEAR 1983 AND LATER

As we face a tighter recruitment market in the 1980s, it is reasonable to assume that enlistment bonuses will continue to be an important tool for the achievement of recruiting goals. The exact magnitude of the enlistment bonus will naturally have to be balanced with the availability and magnitude of other recruitment incentives. As for the SRB program, I expect further growth in fiscal year 1983. This will be the result of several factors. First, the serious mid-career manning shortages we are now experiencing will not go away overnight. These shortages, created in the 1970s, can not be permitted to increase. Therefore, an aggressive bonus program must be continued to retain all of these essential people and to attract prior service members back into the armed forces. Additionally, while reenlistment rates have improved dramatically in all skills, part of the reason for that improvement is our people's expectations for continued compensation improvements as well as the continuation of bonuses which make up the differences between civilian pay in some skills and overcome the arduous conditions of service in others. To start rapidly shutting off bonus payments in numerous skills could have disastrous effect. However, assuming continued Congressional support for an adequate overall compensation system, I believe we can begin a leveling off of the SRB program after fiscal year 1983.

Senator BYRD. Let me ask you this question. As I recollect, in October of 1980, October a year ago, the enlistment bonus was set at $5,000. Then in March or thereabouts of 1981, say, 6 months later, 5 or 6 months later, the Department of Defense requested that that be increased to $10,000.

Now, in that short period of time the enlistment bonus had been increased from $3,000 to $5,000 and 5 months later the Department asked that it be increased to $10,000?

General TICE. The increase in quality that the enlistment bonus brought showed us that for the fiscal year 1982 budget cycle, we should

increase the maximum amount to $10,000. Our current program as we have developed it for 1982 does not plan to pay the $10,000 to any given skill for enlistment.

Senator BYRD. You don't have that authority?

General TICE. The authorization was granted, yes, sir.

Senator BYRD. Was it $10,000 or $8,000?

General TICE. It was granted at $8,000. I stand corrected on that. The authority was given for $8,000.

The services now have developed their programs for 1982 and the maximum that any service is using in a very few selected skills is up to $7,000. We have not gone to the maximum authorized in our program for 1982.

Senator BYRD. In how many skills do you pay enlistment bonuses?

General TICE. For each of the services?

Senator BYRD. No, for the Army.

General TICE. For 1982 there will be 44 skills that will be receiving enlistment bonuses.

Senator BYRD. How many skills do you have altogether?

General TICE. 363.

Senator BYRD. Is it not correct that when the enlistment bonus first was authorized there were three skills involved?

General TICE. You mean in 1980, sir?

Senator BYRD. No, back in 1973 or 1974.

General TICE. I can provide that for the record.

Senator BYRD. Will you provide that for the record?

General TICE. Yes, sir.

[The information follows:]

The initial enlistment bonus program went into effect on June 1, 1972. The Army offered bonuses in nine skills, all of which were in the Infantry, Armor, or Field Artillery career management fields. In the spring of 1973, enlistment bonuses were offered for 29 skills in a variety of career fields, and in 1974, 33 skills were included in the program.

Senator BYRD. You pay enlistment bonuses now on 50 skills?

General TICE. Yes, sir.

Senator QUAYLE. How many skills last year did you pay?

General TICE. Forty-six.

Senator BYRD. Do you have the figure for the previous year?

General TICE. We will provide that for the record, sir.

[The information follows:]

In 1979, the Army offered enlistment bonuses in 34 skills in a variety of career fields.

General TICE. For 1982 the number of individuals who will receive the enlistment bonus in the Army is less than 24,000 of the total enlistments.

Senator BYRD. How many individuals did you reenlist in this past year?

General TICE. 137,000 were enlisted in the Army in 1981.

Senator BYRD. Of those, 24,000 received enlistment bonuses?

General TICE. Sir?

Senator BYRD. Of those, 24,000 received enlistment bonuses?

General TICE. We will have to provide that for the record for last year. For this year we are programed for 24,000 of those enlistees to receive bonuses.

Senator BYRD. Then you plan to enlist the same number, 137,000?

General TICE. It is down to 132,400. I think the key on the enlistment bonuses, sir, is that this is not a large percentage of those enlisting receiving it. The bonus is paid on a very selective basis.

There are two criteria that are very important to understand. We generally limit it to the higher mental quality and for a longer-term commitment.

Senator BYRD. Do you go by calendar years or fiscal years?

General TICE. By fiscal year, sir. I have the percentage of those who enlisted who received enlistment bonuses total DOD-wide in 1980: Seven percent of those who enlisted in the Armed Forces received enlistment bonuses. For 1982 we estimate 12 percent of the enlistees will receive the enlistment bonus.

As you know, we have the additional restriction on quality in 1982 as dictated by the Congress, sir, on the number of mental category IV individuals that we can enlist in the Armed Forces.

Senator BYRD. You are going to enlist 134,000 in 1982, and you are going to pay enlistment bonuses to 24,000?

General TICE. That is for the Army, sir. The Army will pay about 20 percent of their enlistees enlistment bonuses. The Navy will pay only 8 percent; the Marine Corps will pay only 8 percent, and the Air Force will pay only 4 percent.

Senator BYRD. The Army will pay 20 percent?

General TICE. Yes.

Senator BYRD. Of every 100 persons who enlist in the Army, how many reenlist?

General TICE. About 63 percent last year.

General CONNELLY. Yes, of eligibles. Some were not eligible.

General TICE. We have to break that down because some people would not be eligible to reenlist.

Senator BYRD. I understand. I believe you either misunderstood my question or I misundertood your answer.

Of every 100 persons who enlists in the Army, how many of that 100 reenlist?

General TICE. We would not know how many of that 100, 2 years later, 3 years later, or 4 years later would become ineligible. Right now, about 20 percent of those would not even qualify for reenlistment.

Senator BYRD. That is not my question. My question is: Of those who enlist, how many reenlist?

General CONNELLY. Fourteen to twenty. As an example, in 1976, if we track that group all the way through, 17 of 100 enlistees reenlisted.

Senator BYRD. Now we are getting somewhere. The figure that I have is 14 for the Army. You have 17?

General CONNELLY. That is for the group for the year 1976 that I cited. We are saying between 14 and 20, yes, sir.

Senator BYRD. So, the 63 percent you are talking about, General, is after eliminating the attrition?

General TICE. That is right, sir.

Senator BYRD. That is an entirely different proposition.

General TICE. Yes, sir.

Senator BYRD. Now, of every 100 persons who received an enlistment bonus, how many reenlisted?

General TICE. I think we will have to provide that for the record, sir.

Senator BYRD. The figures that I have, worked up by the committee staff, show that 15 percent reenlisted, versus 14 percent of the total. So, these figures, if the committee figures are correct, shows there is very little difference in reenlistment rate between the total number who enlisted or reenlisted versus those who received an enlistment bonus and reenlisted.

General TICE. That could very well be true, but that has no relationship as to why you pay an enlistment bonus. The enlistment bonus is to attract higher quality individuals and also to get a longer term of service. It is not related to enlistment.

Senator BYRD. It seems to me it should be related. You want a higher rate of reenlistment?

General TICE. In the Army, the reenlistment rate is probably about where it ought to be with the current incentives we have.

Senator BYRD. In other words, you are well satisfied if between 14 and 20 percent of those who enlist reenlist?

General TICE. As long as it will meet the requirements for us to man the career force, that is what we seek for the reenlistment rate for first-termers, sir, to fit into the total structure of the Army.

As you know, the Army needs younger and shorter term people, perhaps more so than the Navy or the Air Force, to fill the combat arms specialties that the Army has.

Senator BYRD. Now, of every 100 persons who enlist, speaking now about the Army, how many are separated prior to 6 months?

General CONNELLY. Sir, approximately 16.

In 1980 our attrition rate was 36.2 percent; that is, 36.2 percent of non-prior-service males did not finish their term of service.

Senator BYRD. What year?

General CONNELLY. 1980—it was 36.2 percent. In 1981 it was 31.2 percent.

The good news is that the Army is predicting for fiscal year 1982, 28.9 percent.

Senator BYRD. That is attrition rate; that is not the reenlistment rate?

General CONNELLY. No, sir, but that can affect the reenlistment rate because those people who are separated on balance are not eligible for reenlistment; they were unable to finish their term of service for various reasons.

Sentor BYRD. Now, of every 100 persons who received an enlistment bonus, how many were separated from the service prior to 1 year?

General CONNELLY. I would have to supply that for the record, sir.

Senator BYRD. Will you supply for the record also how many were separated prior to 2 years?

General CONNELLY. Yes, sir.

[The information follows:]

Of every 100 persons who were paid an enlistment bonus from 1977 to 1980, 5 to 7 recipients were separated prior to one-year service and 6 to 8 recipients were separated between 13 and 24 months. Total bonus recipients separated prior to two years service were 11 to 15. These figures do not include bonus eligibles who were separated during their first three months of service because

enlistment bonuses are not paid to a soldier prior to successful completion of basic and advanced individual training. This period averages more than three months.

General CONNELLY. About 6 to 8 percent of bonus eligibles are separated prior to the time they finish their training; 6 to 8 percent is our attrition rate, but I will supply the other figures for the record.

Senator BYRD. I would like to submit a series of six questions dealing with this matter of retention or reenlistment:

Do the Navy, the Air Force, and the Marines, all three of those services, pay up to $8,000, such as the Army pays?

Admiral HOGG. No, sir, the Navy pays $1,500 for conventional ratings and $2,000 for nuclear ratings and for fliers.

General USHER. In the case of the Air Force, we only pay an enlistment bonus to some 7 skills out of some 257 that we have. In fiscal year 1982 one skill will be paid at the $3,000 rate, one at $2,000, and the rest below that.

Senator BYRD. So, the maximum for the Air Force and the Navy is substantially below the Army's, which is $8,000?

General USHER. Yes, sir.

General TICE. The recruiting challenges are different. The propensity of youth to join the service starts with the Air Force, then the U.S. Navy, the U.S. Army, and the Marine Corps, in that order.

Senator BYRD. What is the maximum bonus for the Marine Corps?

General LUKEMAN. We pay very few people $5,000. We pay a few people $5,000 for 6-year enlistments. We pay considerably more, $4,500, for very high quality people in the combat arms. The great majority of our enlisted bonuses are in the range of $3,000 to $3,500.

Senator BYRD. Submit for the record, if you will, the number and percentage of enlistees in each of the services who will be receiving an enlistment bonus for fiscal year 1982, along with similar figures, for the last 3 fiscal years.

General TICE. We will do so, sir.

[The information follows:]

NUMBER AND PERCENTAGE OF ENLISTEES RECEIVING ENLISTMENT BONUSES BY SERVICE, FISCAL YEARS 1979–82

	1979		1980		1981		1982	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Army	14,707	11	14,858	10	18,028	15	26,295	20
Navy	450	1	1,908	2	6,215	7	7,385	8
Marine Corps	3,123	8	3,480	9	2,898	7	3,387	8
Air Force					2,354	3	2,962	4
DOD	18,280	6	20,246	7	29,495	9	40,029	12

Senator BYRD. Can you give the committee more details on how you determine which skills should be eligible for enlistment bonuses? Let us confine this to the Army. The Army uses it to a much greater degree than the other services. You have 50 skills involved. That is increased from the original 3 up to 50. Each year it gets more and more. Could you indicate to the committee, for the committee, more details on how you determine which skills should be eligible for enlistment bonuses?

General CONNELLY. Yes, sir. I would like to say they are used to

attract and distribute quality enlistees among Army MOS's which have little correlation with civilian occupations, lower prestige, greater discomfort, and less similarity between peacetime and wartime missions. These perceived disamenities have been difficult to overcome and to do so requires a full range of bonuses to persuade quality individuals to enlist for selected hard-to-fill MOS's.

Because these bonuses are offered only in return for a 4-year term of service, many of these quality soldiers become noncommissioned officers and contribute significantly to combat readiness of the force. I would like to give some examples. I would like to state though that while we talk about the maximum bonus, in 1980 while we were authorized $3,000, the average payment was $2,672. In 1981, even though we were authorized $5,000, the average payment was $3,161. Our estimate is that in 1982 our average payment will be $4,739.

We have increased, and if I may talk about combat arms figures, we went up to 42 percent bonus takers in 1981 of what we call high school diploma graduates, mental category I–II in the combat arms. So, what I am saying is, 42 percent of the combat arms accessions in fiscal year 1981 were high school diploma graduates, mental categories I to III bonus takers. That is up from 12 percent in 1980.

And in the other critical skills offering bonuses we increased that quality to 38 percent, 7,000 quality soldiers in 1981, as opposed to 3,400 in 1980, which was 19 percent. So, we target on critical skills and hard-to-fill combat arms MOS's. The bonus is a distribution tool to attract quality people to skills which have great disamenities that they might not otherwise consider.

We believe the enlistment bonus program is successful and we look to the hard-to-fill combat arms and distribute quality soldiers in them. We were successful in that in 1981.

Senator BYRD. What do you do about those who receive enlistment bonuses but do not complete their enlistment?

General CONNELLY. Let us suppose a person is discharged, the final military pay voucher would reflect that person's indebtedness. We try to collect it before the soldier is separated, but, to be very frank, the person most of the time does not have that money. We establish a collection file for that individual. We—that is, the Army Finance Center—then sends up to four letters, attempting to collect the unearned portion of the bonus. If we cannot collect this money, then we follow up through the Internal Revenue Service. If the individual is located but will not respond, the case is turned over to the U.S. attorney of the appropriate State of residence for action.

Senator BYRD. You go to the Internal Revenue Service?

General CONNELLY. Yes, sir; trying to locate the individual after a year. Once we locate him, we turn it over to the U.S. attorney.

Senator BYRD. As a practical matter, once the bonus is paid, it is gone, is it not?

General CONNELLY. The recoupment is very, very hard, sir. I can supply the actual figures for the record, but approximately 10 percent of the money is recouped from the person once he separates.

Senator BYRD. Has there ever been any legal action by the Army or the Justice Department, as the case might be, to recoup enlistment bonuses in cases where the term of enlistment was not completed?

General CONNELLY. Sir, I am afraid I would have to check that and submit it for the record. I don't know about the Justice Department. I will have to check.

Senator BYRD. Any legal action by the Army?

General CONNELLY. The legal action after the person has been separated goes out of our hands. We turn it over to the U.S. attorneys. We pursue it up to the time of discharge. We then continue on with the letters. If the individual will not respond, we turn it over to the U.S. attorney.

General TICE. Sir, for your information, by the 31st of December we are committed to provide for this committee a report on our recoupment procedures, our successes to date, how much money was paid out by each service and how much was lost in recoupment. That is a special report that this committee has asked us to provide.

Senator BYRD. Will you also reply precisely to the question, has there ever been any legal action by the Army to recoup enlistment bonuses in cases where the term of enlistment was not completed?

General TICE. We will provide that, sir.

[The information follows:]

The Army has taken legal action to recoup bonuses from separated servicemembers through the Federal Justice Department as prescribed by Public Law 89–508. For example, from May 1979 to December 1980, 68 cases were forwarded to the United States Attorney's office having jurisdiction over the district in which ex-servicemembers have established residence. Criteria for collection and delegation authority to pursue indebtedness through the Justice Department is contained in the Government Accounting Office's Title IV and further defined in Army Regulation 27–41 and Army Regulation 600–200.

Senator BYRD. Earlier this year the committee received testimony that over the last 6 years $11.7 million in enlistment bonuses has been designated by the Army as a recoupable, and only $1.4 million was actually recouped at the time the member was discharged.

General TICE. That is correct, sir.

Senator BYRD. I assume that is an up-to-date figure?

General TICE. Yes, sir; 12 percent of the money that was paid out that should have been recouped was recouped.

Senator BYRD. There is some $10 million which has not been recouped. My question is: Has there been any legal action?

General TICE. We will provide that for you, sir.

Senator BYRD. When the recruiting officer goes up to a young man, whether in the city or on the farm, and tries to encourage him to join the Army, what does he tell him about the enlistment bonus and how is the enlistment bonus paid?

General TICE. The recruiter tells the prospective enlistee not very much information about bonuses. As you know, under the procedures for recruiting, what we call the foxhole recruiter, he or she recruits for military service. At that time, we don't know what his mental scores are, so you cannot guarantee an individual what training they will get or how you might classify them until after they have been mentally tested and given the physical test and mental test at the Armed Forces examining stations.

The recruiter is the individual who beats the bushes, who tries to convince young people that there is an opportunity for them within the armed services. The service-unique recruiter will try to sell his service.

After they go to the Armed Forces examining station and are given their tests, then each of the services has specific occupational or career counselors there who, based on the individual scores after they examine them, identify the programs that that individual is eligible for enlistment.

It is only at that time that he will learn of the possibility of qualifying for a bonus.

Senator BYRD. Let us assume then that he qualifies and picks a skill for which you pay an $8,000 bonus.

General TICE. We do not pay anybody $8,000. I want to correct that for the record. So far, the most we have ever paid is $5,000. The average payment last year was $3,161 for everybody who enlisted in the Army.

We are projecting in 1982 that the average payment will be about $4,700 for those enlisting.

Senator BYRD. Your maximum payment?

General TICE. Maximum is $7,000 for very few skills.

Senator BYRD. So, you are keeping under the $8,000?

General TICE. Yes, sir.

The other thing I think we should recognize is that the man does not receive that bonus until after he completes the skill training.

Senator BYRD. That is the point I am trying to get to. Let us assume that he is offered a $7,000 bonus; at what point does he receive that?

General TICE. After he has completed his basic training and his skill training and is awarded the specific MOS for which the bonus is authorized, then he receives that bonus.

Senator BYRD. He receives it in one lump sum?

General TICE. Yes, sir. Up to $5,000 is the plan for next year. If he qualifies for the $7,000, the remaining $2,000 will be paid out over the term of his service.

Senator BYRD. So far as the first $5,000 is concerned, he will be paid $5,000 in one lump sum?

General TICE. Yes sir.

Senator BYRD. What is the period of time from the time he goes into the service, actually takes the oath and goes into the Army, until the time he completes the work required to get the $5,000?

General TICE. The earliest it would be for some of the skills would be 4 to 5 months. If it is a very technical skill training, it could be as much as 15 months before he has completed that training, before he would qualify.

Senator BYRD. What the Army, in effect, would be telling him is, "Look, you enlist in the Army and you enlist for this particular program, and at the end of 5 or 6 months the Army will give you a check for $5,000"?

General TICE. Less the taxes he would owe on that.

Senator BYRD. Of course, you take off the income tax?

General TICE. Yes, sir.

Senator BYRD. He is given a check for a lump sum of $5,000 at the end of 5 or 6 months?

General TICE. It could be a year later, depending on the skill for which he is in training.

Senator BYRD. Generally speaking, around 5 months?

General TICE. I would say that applies only to the combat skills. A voice interceptor takes up to 60 weeks of training before qualifying in that technical specialty.

Senator BYRD. In talking with individual citizens around Virginia, when I bring up the question of recruitment and the All-Volunteer Army and all that, I mention that a recruit is given a check for $5,000 at the end of—I think I had been using 5 or 6 months—everyone I talked with without exception has been totally astonished to hear any such thing as that, they can't conceive of it. "That is a tremendous inducement."

General TICE. I don't know what the alternative would be.

Senator BYRD. I am not sure it speaks very well for the All-Volunteer Force, if you have to go to an enlistment bonus of that type.

I assume that there is not much use asking this question because I know how you need to answer it: As to the All-Volunteer Force, I assume, General, you feel that is working well?

General TICE. If we look at the results for last year, I think they stand very favorably.

Senator BYRD. Let me put it in this context: I will tell you why I am opposed to it. I am opposed to it for a number of reasons. One basic reason is this: It seems to me that our country needs to be defended by a broad cross-section of our population. Now, is it not correct that most of the enlistees in the Army, most of those who are enlisted in the Army today, are from the lower economic groups of our Nation?

General TICE. I would answer it this way: The enlisted force of the Armed Forces, even with the draft, was not necessarily a cross-section of our country; but if you add the officer corps in, in measuring how the Armed Forces look today, it is not a whole lot different than it was when we had the draft.

Senator BYRD. Let us leave out the officer corps.

General TICE. Let us talk about the enlisted force and compare it with the socioeconomic structure of our society. The enlisted force of the Armed Forces is comparable to the blue-collar work force on the outside. I think if you will examine the accessions we made in the Armed Forces last year, it is very comparable, both socially and economically, with the blue-collar force on the outside, sir.

Senator BYRD. Do you feel that only the blue-collar people should have the responsibility of defending our Nation?

General TICE. No, because the other segments are those who are either commissioned or in very special technical fields. If you take the draft as it was applied in the Vietnam war, where anyone who went to college was exempted, I just can't see that as a fair way of running and manning the Armed Forces either.

Senator BYRD. I agree with you on that.

Is it not correct that was changed to the lottery system in the latter part of the war?

General TICE. It was, toward the latter years of the war.

Senator BYRD. Would the lottery system be more apt to get a broad cross-section of our population than the present system?

General TICE. I still would have to hedge my answer on that, sir. I am not sure you want a lawyer or someone with 4 years of college serving in some jobs that we have to perform in the Armed Forces.

Senator BYRD. But you could make those eligible for service at a lower age, which is what *you want, anyway. What is the* minimum age?

General TICE. Eighteen. We take some at 17. I think with respect to the real challenge for the Nation and the public at large, I am confident if they perceive a major threat against the United States, then I am convinced that they would want us to seek a different way of manning the force. Short of war, in a peacetime mode, I feel that the Nation at large is fairly comfortable with the volunteer environment we have now.

For individuals my age who were drafted—and I was drafted—we perceived, I think, the world situation a little differently. For the young people of this Nation I think they sense that we have a fair and equitable system for manning the force in peacetime. What we have done to insure that we do get a better cross-section of youth in this Nation is to offer enlistment bonuses to attract those who might otherwise not enter unless forced in under a draft.

Senator BYRD. So, you are offering enlistment bonuses to the more economically advantaged people?

General TICE. If they are in the higher mental categories, sir.

Senator BYRD. When you take a 17- or 18-year-old young man and tell him at the end of 5 or 6 or 7 months, "I am going to give you a check for $5,000," that is something.

General TICE. Sir, we access 345,000 people who come into the Armed Forces each year. As I mentioned to you, in 1982 the total number who will be receiving that enlistment bonus is only 12 percent of the 345,000 we are going to take into the Armed Forces, and they are committed for 4 years.

If we can resolve the problem of recoupment, I think that the payoff for the individual who is going to sign on for additional time is very cost effective, sir.

Senator BYRD. But you don't particularly want him to stay on after the 4 years?

General TICE. I would like to do that on a selective basis, on our choice and not necessarily only on the individual's choice.

Senator BYRD. Right; that is the way it should be.

The reenlistment rate is not significantly greater for those who do not receive the enlistment bonus; that is what the figures show.

Senator Jepsen, I want to thank you for holding this hearing.

Senator JEPSEN [presiding]. Thank you. Senator.

If I may, I have just a few questions and I will submit some for the record. We have another witness.

Senator BYRD. I think I should say, because you were out at the time, I asked the witnesses if they would confine their testimony and remarks to the enlistment bonus and not, for my purposes, get it mixed up with the reenlistment bonuses. You may want to change that. You may want to get into the reenlistment bonus. I have confined my queries to the enlistment bonus.

Senator JEPSEN. We have similar thoughts on the enlistment bonus. I have some real problems on it, of course, reinforced a little here this morning, and I do not mean this in a critical sense, but it does perplex me a little bit.

We did authorize in that pay bill we had an increase—not at my desire or initiation, I might add—in the front-end enlistment bonus level. While we hear 1981 was a better year for recruiting, I heard here in the testimony in response to Senator Byrd you are thinking of increasing the average bonus level, even though we are meeting all our quotas.

I guess the bottom-line question is: "Just because we authorized more money, do we have to spend it?"

General TICE. We did not spend all that was authorized, sir. We are on a path to increase the quality of those who are serving in the Armed Forces. We know the higher quality individuals that we have attrite at a much lesser rate than those who are of lower quality.

Senator JEPSEN. No question about that.

General TICE. If you look at the statistics for 1981, I am absolutely confident that the bonuses played a great role in the number of high school and mental category I through III that the Army was able to access this year versus the previous year, where 13 percent who entered in the Armed Forces qualified in the upper mental categories. We changed that to 40 percent this year. This is the objective we are seeking to utilize the enlistment bonus for.

Each of the services has a different problem. Those who have high technical skills in the Navy and Air Force pay a greater share of the reenlistment bonus. The Army's challenge is how to get the higher quality individual in the front door and then to be selective on the quality individuals that come in the front door, so that we can retain them in the Army.

At least that is the objective of our enlistment bonus program, sir.

Senator JEPSEN. I repeat an old statement I have put in the record here often—and I am not saying that I do not think you necessarily disagree with it—that is, you can buy hand power but you can't buy head power. When fathers and mothers across this country, as they are beginning to do now, once again, respond to 78 percent of the children in this country when they graduate from high school who ask their parents what they are going to do, when the fathers and mothers begin to say, again, "I think you ought to pay a little rent and I think you ought to give some service time, we will be very proud to have you go into the service," that pride, that feeling about the men and women in uniform and so on will begin to come back. You can't buy that type of thing.

I don't want to get into a fire fight with people who are in it because they are paid. I know you feel the same way. There are surveys and there is lots of material, to be very brief, on this, that shows that in the youth attitude tracking study conducted in the fall of 1980 that you used or you are aware of, over one-third of the youth surveyed, or 37 percent, believe the monthly starting pay of the military is below $75. At this time it is well above $500.

It seems to me that the story of just exactly how much money is available for a young person, the pay schedule without the bonuses, is not as well told and advertised as might be.

I, too, have made some statements, in the conference committees and so on when we were battling over our pay bill, that it is just difficult for me to understand why under any circumstances it is neces-

95-351 O - 82 - 4

sary to take a 17-year-old youngster and in the first 6 months pay him more than corporate vice presidents who are 45 and 50 years old, in my State. It just doesn't add up. I think it is something we are going to have to look hard at.

As I say, specially when the $500 plus other benefits are added up, you are looking at $1,100 a month by the time you get everything put together for a youngster now going into the service. A 17-year-old is not going to go on a farm or into a factory and start there. I think we have to do a better job with this persuasion, selling our story.

I am not saying you are not. I have now gotten my feelings off my chest and gotten them into the record.

General TICE. I would make the comment that we are all a victim of our own personal experience. I commanded a brigade in 1971 when we had the draft and out of 5,000 soldiers, there were 168 deserters on the roles. I commanded a division in Germany with 18,000-plus soldiers and had only 5 AWOL's in 2 years. I am not sure that forced entry into the services necessarily breeds and promotes patriotism in service to the country at a less cost than what we have now in volunteer environment.

There is no doubt in my mind that if we were to substantially increase the size of the Armed Forces today, or if there were changes in the economy, that we might have to look at an alternative way of meeting those accession goals that we have for the Armed Forces.

I would like to close my comments, that in 1981, with the support that this committee has given us in the form of the 1981 pay bill and the one we have for this year, I am confident we can increase the quality, and I am aslo confident that we can meet the goals, this year.

Senator JEPSEN. Part of the reason is that we were that full, we won our battle against all odds on the targeting because now your noncommissioned officers, when they go home, their parents, brothers, sisters, their wives and in-laws all feel much better about the service?

General TICE. Yes, sir; I would agree.

Senator JEPSEN. And with much more reason. I think our targeting was worth fighting for.

Let us talk about reenlistment a little bit.

Senator BYRD. Could I ask one question before you get to reenlistment?

Senator JEPSEN. Please.

Senator BYRD. What would be your reaction to this suggestion on recouping enlistment bonuses when people leave the service early, namely, withhold favorable discharge until the money is paid?

General TICE. I think there would be two answers to that: One, in the form of a legal option, and the other one an intuitive kind of judgment. Intuitively, I don't think that would be a bad idea. But I don't think I would get support for that from the general counsel on the legal aspects of that.

Senator BYRD. Thank you.

Senator JEPSEN. General, in fiscal year 1982 DOD plans to pay reenlistment bonuses to about 37 percent of those reenlisting. The growing institutional nature of reenlistment bonuses makes me wonder whether it will be possible to really level off the selective reenlistment bonus

programs after fiscal year 1983, as you predicted in your statement. The history of the current reenlistment bonus, for example, how often have the services reduced the number of skills for bonus eligibility?

General TICE. We have a very comprehensive review each year, sir. The review of the skills that may be eligible to receive their reenlistment bonus starts almost 1 year in advance. We consider the number of people we have currently serving in that skill, the potential changes in force structure which may increase the requirements for that skill. These two factors help us determine increases or decreases in the level of bonus.

I think the encouraging thing for the reenlistment bonus program is that as skills become filled, we reduce and in some cases remove skills from the higher levels of pay.

Senator JEPSEN. You say in some cases. Is it often or every once in a while, or seldom?

General CONNELLY. I would be happy to address it, sir, for the Army, to give you a feeling for that.

On October 23 we reduced 8 skills, terminated 31, and we raised 2. Action is now being staffed to add 6 skills, increase 2 skills, and terminate 18. So it is something we look at and it is a dynamic environment.

Senator JEPSEN. So you are using these things on a target basis to shore up or beef up when you have problems in given areas as you ascertain and evaluate these things on a yearly basis; is that right?

General CONNELLY. Yes, sir, even more periodically, what is happening with the strength of that particular specialty.

Senator JEPSEN. If you could, all of the services, I would appreciate having for the record the list of programs or skills that were dropped for the last 2 years.

[The information follows:]

SELECTIVE REENLISTMENT BONUS

Following is a listing of skills for each Service which were reduced in bonus multiplier level or removed from the Selective Reenlistment Bonus Program during the past two years:

Effective date	Reductions			Terminations		
	Zone A	Zone B	Zone C	Zone A	Zone B	Zone C
Army:						
Oct. 1, 1979	8	1		15	3	
Mar. 1, 1980					1	
Sept. 1, 1980	1			1	1	
Oct. 1, 1980	20	3		26	6	
Jan. 12, 1981				2		
Feb. 23, 1981				2	1	
Sept. 1, 1981	6			6	6	
Oct. 23, 1981	7	1		17	13	1
Nov. 23, 1981				1		
Dec. 23, 1981	1			12	6	
Navy:						
Oct. 1, 1979	13			2	3	
May 1, 1980	1			4	1	
Oct. 1, 1980	6			5	1	
Marine Corps: Specific effective dates not readily available	31	53	9	51	34	5
Air Force:						
Oct. 1, 1979	8	2		7	5	
Oct. 1, 1980	7			5	2	
Apr. 30, 1981				1		

Senator JEPSEN. In your statement, General Tice, you mention that "the military has an institutional pay system based on grade and length of service. Within this system, levels of compensation must be such that all military are haves. No institution, especially the military, can afford a class of have-nots.

Now, when you consider the fact in the Navy your nuclear chief petty officer gets $20,000 reenlistment bonus——

Admiral HOGG. Yes, sir.

Senator JEPSEN [continuing]. And a man right beside him gets nothing, how do you feel about the "haves" and "have-nots"?

Admiral HOGG. We have had the bonus program in the Navy for several years now. One of the problems we had when we brought it onboard was the fact that there is that differential pay. Within the nuclear submarine it is not as significant a problem because all of our nuclear people are on a bonus. In a conventional combatant ship, however, we do have, for example, a bosun's mate side by side with an electronics technician. They do not work in the same center but in the environs of the ship. Over the last couple of years the bosun's mate has learned to understand why the electronics technician has drawn the bonus; he recognizes the fact that the ET gets considerably more training, commits himself for a 6-year obligation because of that training, and that reasonably satisfies the bosun's mate in the matter.

The particular bosun's mate would say, "I understand why the ET gets that big bonus. All I would like is a little bonus. If you gave me $1,000, for example, just to let me know I am appreciated at some level, I would walk away happy and that would not be a problem."

That is the degree of frustration we have. We feel it is manageable simply because the bonus program is the most cost effective way we have of trying, in addition to the base pay, to target our dollars to keep those midgrade and senior enlisted group of personnel in the Navy in the technical ratings.

Senator JEPSEN. I don't think there is enough money in the United States of America to continue to try to buy our military. We ought to have a career that is attractive. We ought to have an attractive career pay scale so that people can look at it and plan for a career like they do in many other areas of the business sector, as long as we have a volunteer Army; and, by the way, I support that concept until it is proven it does not work, and I will do all I can to make it work.

You know, my question is, what do we have to do to develop a military compensation scale, how can we improve it, so that bonuses and special pays can be reduced?

General USHER. Senator, if I could make one comment here, I share a lot of your concerns, because I think we do need to have a compensation system that really supports the Armed Forces as an institution and, as you say, gets us head power.

I ran a check this morning which might be interesting here. I looked at our total military pay acccount in the U.S. Air Force, which runs pretty close to about $11 billion—and, incidentally, I would like to get in the point that the cost of personnel in the Armed Forces and in the Air Force in particular has fallen as a percentage of the DOD budget every single year since 1974. Of the $11 billion in our pay account, less than $500 million goes to all the special pays, reenlistment bonuses, proficiency pays for officers and enlisted personnel. So, I think

we are mindful of that balance. I think we try to keep it in check and we can rely on the basic pay system as a whole.

Another point I would make is that if you look at the SRB's in constant dollars over the years—and we can provide these figures for the record—there really is not a very substantial change; it is fairly constant, if you look over the last decade, with a dip from the 1975 to the 1980 time period.

Senator JEPSEN. I would advise the witnesses this morning that I think it is a very important area we are in. I may not be totally objective about it. In all fairness, we need more time. We don't have that time, as it is turning out today because of the situation we are in here. So, I would like to reconvene this hearing at a mutually satisfactory date. You can respond to the questions that have been asked for the record at this time.

We will submit very few at this time and hold them off so that we can all discuss them at a later date.

[Questions submitted for the hearing record follow:]

QUESTIONS SUBMITTED BY SENATOR HARRY F. BYRD, JR.

REENLISTMENTS

Senator BYRD. Out of 100 persons who enlist, how many reenlist?

ANSWER. The information follows:

Army	Navy	Air Force	Marine Corps
[1] 23	[2] 29	[2] 27	[2] 17

[1] Number who reenlisted out of 100 persons who enlisted in the Army in fiscal year 1977.
[2] Average number who reenlisted out of 100 persons who enlisted in Navy, Air Force, and Marine Corps in fiscal year 1976 and fiscal year 1977.

SEPARATIONS

Senator BYRD. Out of 100 persons who enlist, how many are separated: (a) prior to 6 months; (b) within 1 year; (c) before the expiration of 2 years?

ANSWER. The information follows:

	Army [1]	Navy [2]	Air Force [2]	Marine Corps
(a) Prior to 6 mo	13	9	7	13
(b) Within 1 yr [3]	19	12	9	16
(c) Before expiration of 2 yr [3]	28	19	19	23

[1] Numbers separated out of 100 persons who enlisted in the Army in fiscal year 1978.
[2] Average number separated out of 100 persons who enlisted in the Navy, Air Force, and Marine Corps in fiscal years 1978-81.
[3] Numbers are cumulative.

REENLISTMENT OF ENLISTMENT BONUS RECIPIENTS

Senator BYRD. Of every 100 persons who receive an enlistment bonus, how many reenlisted?

ANSWER. The information follows:

Army	Navy	Air Force	Marine Corps
[1] 28	([2])	([2])	[1] 11

[1] Number who reenlisted out of 100 enlistment bonus recipients who enlisted in the Army and Marine Corps in fiscal year 1977.
[2] Navy and Air Force started paying enlistment bonuses in fiscal year 1979 and fiscal year 1981, respectively. Consequently, these bonus recipients have not completed sufficient service to be eligible for reenlistment.

Senator BYRD. Of every 100 persons who received an enlistment bonus, how many were separated from the service: (a) prior to 1 year; (b) prior to 2 years?

ANSWER. The information follows:

	Army [1]	Navy	Air Force [2]	Marine Corps [3]
(a) Prior to 1 yr	5 to 7	1	0	2
(b) Prior to 2 yr [4]	11 to 15	([5])	0	3

[1] Number of those separated of every 100 persons who were paid an enlistment bonus from fiscal year 1977 to fiscal yea 1980.
[2] Air Force started paying enlistment bonuses in fiscal year 1981. To date, no enlistment bonus recipients have been separated.
[3] Number of those separated of every 100 persons who were paid an enlistment bonus in fiscal year 1979 and fiscal year 1980.
[4] Numbers are cumulative.
[5] Navy started paying enlistement bonuses in fiscal year 1979. Data on 2d yr not yet available.

PERCENTAGE OF ENLISTEES RECEIVING ENLISTMENT BONUSES

Senator BYRD. What percentage of enlistees receive enlistment bonuses?

ANSWER. The information follows:

[In percent]

	Army	Navy	Air Force	Marine Corps
Fiscal year:				
1978	11	1	----------	8
1980	9	3	----------	8
1981	15	5	1	6
1982	18	32	2	10

REENLISTMENTS

Senator BYRD. Out of 100 enlistees, how many persons reenlist that are: (a) high school graduates; (b) non-high school graduates?

ANSWER. The information follows:

	Army	Navy	Air Force	Marine Corps
(a) HSDG	16	23	24	15
(b) NHSG	7	6	3	2

ENLISTMENT BONUSES

Senator BYRD. Just over one year ago, this Committee raised the maximum enlistment bonus from $3,000 to $5,000. In the short time that DOD operated under this $5,000 ceiling, what changes did the services experience in the supply of high school graduates who enlisted? On what do you base your conclusions?

ANSWER. From FY 1980 ($3,000 bonus level) to FY 1981 ($5,000 bonus level), the Army increased its male high school diploma graduate (HSDG) accessions by 11,000 which represents a 16.54 percent productivity shift. Similarly, all HSDG, mental category I–IIIa accessions increased 5,944 which is a productivity shift of 14.4 percent. Although the enhanced enlistment bonus is not solely responsible for these increases, it did have a significant impact on the Army's FY 81 recruiting success, particularly in the combat arms. Combat arms recruiting objectives were achieved for the first time since the inception of the All Volunteer Force.

Senator BYRD. What changes in the supply of high school graduates do you expect by increasing the enlistment bonus to $8,000? On what do you base your conclusion?

ANSWER. At the direction of the Congress the Army will test the $8,000 bonus in a limited portion of the nation in FY 82. With the exception of the test the

maximum bonus offered will be $7,000 and then only to combat arms enlistees. The higher bonus amounts will assist in attracting the additional 7,700 Non-Prior Service male high school diploma graduates in FY 82 above the FY 81 level and continue the momentum in attracting Mental Category I–IIIA enlistees. In FY 82 the Army intends to enlist 60,100 Mental Category I–IIIA's which represents a 13,000 increase over FY 81. The increased bonus levels will expand our penetration in the high quality market and enable us to properly align the force.

Senator BYRD. What will the average size enlistment bonus be in FY 1982? In how many skills will you be awarding the maximum $8,000 bonus?

ANSWER. The average size of the enlistment bonuses that will be paid in FY 1982 is $3,800. In conjunction with the Enlistment Bonus Test to be conducted bp the Army in FY 1982, $8,000 bonuses will be offered in selected infantry artillery and armor skills.

NUMBER AND PERCENTAGE OF ENLISTEES RECEIVING ENLISTMENT BONUSES

Senator BYRD. Please show the number and percentage of enlistees in each of the Services who will be receiving an enlistment bonus in FY 1982, along with similar figures for the last three fiscal years?

ANSWER. The information follows:

NUMBER AND PERCENTAGE OF ENLISTEES RECEIVING ENLISTMENT BONUSES, FISCAL YEARS 1979–82

	Army		Navy		Marine Corps		Air Force	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Fiscal year:								
1979	14,707	11	450	1	3,123	8	----------	----------
1980	14,858	9	1,908	3	3,480	8	----------	----------
1981	18,176	15	3,456	5	2,548	6	1,003	1
1982	21,538	18	7,548	12	3,998	10	1,184	2

MAXIMUM ENLISTMENT BONUS

Senator BYRD. Does DoD plan to ask for another increase in the maximum enlistment bonus as part of the FY 1983 Budget Request?

ANSWER. No. The FY 1983 DoD Budget requests funds to pay enlistment bonuses of up to $8,000 in conjunction with the FY 1982/1983 Enlistment Bonus Test. We have not yet had to use that maximum authority.

CRITERIA FOR DETERMINING ENLISTMENT BONUS SKILLS

Senator BYRD. Please give the Committee more details on how you determine which skills should be eligible for enlistment bonuses. Does a skill have to be undermanned by a certain percentage to trigger a bonus award? How do you determine the appropriate level for a bonus on a particular skill?

ANSWER. Enlistment bonuses are used to channel the prospective recruits into those career areas where the Services experience difficulty in attracting qualified applicants—primarily the combat arms and high aptitude technical skills. Annually, each Service submits to the OSD its proposed bonus program in terms of skills in which they desire to pay enlistment bonuses and levels of bonus payments (currently up to $5,000). In OSD we review these proposals, looking primarily at past difficulty attracting people to the skill, numbers of people in the delayed entry program (DEP), the first-term manning in the skill, and future recruitment requirements. This review is done for each skill in which a bonus is desired to be paid. We also monitor the enlistment incentive programs during the year so that adjustments in the bonus levels can be made to reflect supply and demand changes. Bonus awards are not triggered automatically by a certain percentage of undermanning. An evaluation of all of the foregoing factors is made, together with the essentiality of the skill to the Service's mission, before a bonus award is approved. The appropriate level for a bonus on a particular skill is determined by the "pulling power" needed to induce qualified recruits to enlist for training and service in the particular skill. New bonus awards are normally started at a level of $1,500 on average. They are monitored closely for

effect and adjusted upward, downward or terminated to reflect supply and demand changes. Enlistment bonus amounts and their effectiveness have been the subject of extensive research since 1973. Currently, details of a test design and implementation plan are being developed by OSD and the Army, as directed by the Congress, to test the effectiveness of various bonus levels up to $8,000 for 4-year enlistments as well as levels up to $4,000 for 3-year enlistments, and to estimate the effect of the interaction between the 3- and 4-year bonus programs. We expect to start the test this spring (April–June 1982).

"MORAL ASPECTS" OF ENLISTMENT BONUSES

Senator BYRD. Have you encountered any adverse criticism about the "moral aspects" of such a large bonus for these young men to serve in the armed forces?

ANSWER. Very little. The fact that we are getting a higher quality enlistee for a longer period of enlistment appears to justify the payment of current bonus amounts in most people's evaluations.

IMPACT OF $8,000 BONUS ON NAVY AND AIR FORCE RECRUITING

Senator BYRD. What will be the impact on Navy and Air Force recruiting when they are competing against the $8,000 bonus?

ANSWER. We do not believe there will be a serious impact upon Air Force and Navy recruiting. However, as part of the Congressional mandated enlisted bonus test, we will monitor the actual impact of the enhanced Army bonus upon all Services.

ATTRITION RATES

Senator BYRD. How effective are enlistment bonuses in getting people to complete their initial term of service? What is the attrition rate for individuals receiving enlistment bonuses compared to the attrition rate for individuals of similar background in similar skills who did not receive an enlistment bonus?

ANSWER. First-term attrition (the failure of individuals to complete their initial enlistment commitment) has been a matter of concern to the Department of Defense since shortly after the advent of the all-volunteer force in 1973. However, it is well documented that high school graduates attrite at approximately one-half the rate of non-graduates. Since enlistment bonuses are paid only to high school graduates in Mental Category Groups I–III, the bnuses attract people who are more likely to complete their initial term of service. For example, the overall attrition rate for non-prior service males who entered the Army in fiscal year 1977 was 40 percent; the rate for the bonus recipients was 31.4 percent; nonbonus recipients in similar skills attrited at 42 percent. For fiscal year 1978 enlistees, the rates were 33.7 percent, 27 percent and 36.2 percent, respectively.

COMPLETION OF FULL TERM OF OBLIGATED SERVICE

Senator BYRD. What percentage of people actually receiving enlistment bonuses actually complete their full term of obligated service in the skill for which they received the bonus? Please provide the answer by Service.

ANSWER. In the Army, between 70 and 75 percent of the people receiving enlistment bonuses actually complete their full term of obligated service in the bonus skill or a related career progression skill. Precise data is not available for the Marine Corps. However, since overall Marine Corps attrition is slightly lower than for the Army, a conservative estimate would indicate a similar completion rate for Marine Corps bonus recipients. Since Navy and Air Force did not start paying enlistment bonuses until FY 1979 and FY 1981, respectively, no bonus recipients in these Services have reached the end of their obligated service.

LEGAL ACTION TO RECOUP ENLISTMENT BONUSES

Senator BYRD. Earlier this year, the Committee received testimony that over the last six years, $11.7 million in enlistment bonuses has been designated by the Army as recoupable and only $1.4 million was actually recouped at the time the member was discharged. Has there ever been any legal action by the Army or the Justice Department to recoup enlistment bonuses in cases where the term of enlistment was not completed?

ANSWER. The Army has taken legal action to recoup bonuses from separated servicemembers through the Federal Justice Department as prescribed by PL

89–508. For example, from May 1979 to December 1980, 68 cases were forwarded to the United States Attorney's office having jurisdiction over the district in which ex-servicemembers have established residence. Criteria for collection and delegation authority to pursue indebtedness through the Justice Department is contained in the General Accounting Office's Title IV and further defined in Army Regulation 27–41 and Army Regulation 600–200.

ROTC PAYBACK

Senator BYRD. Mr. Secretary, last year the committee added a provision to H.R. 5766, the ROTC scholarship bill, requiring that persons who receive ROTC scholarships and then do not serve should be forced to repay the cost of their education. How has this provision been enacted. Can you provide for the record the number of people involved and the amount of money collected since the bill became law?

ANSWER. The active duty commitment and reimbursement requirements for scholarship students described in PL 96–357 are encompassed in the revised Departmental directive on ROTC, reissued January 1982. The Military Services, sensitive to the intent of Congress, have been operating in accordance with the law since Fall 1981.

A student who now accepts an ROTC scholarship is required to sign a contractual agreement that he or she will complete the educational requirements and serve on active duty as a commissioned officer; that if the person fails to complete the requirements specified in the agreement, that person will serve on active duty in enlisted status for the period specified in the agreement (normally 2 or more years).

The ROTC directive allows for mitigating circumstances. The Military Departments are not precluded from considering medical disqualification, humanitarian reasons, or other mitigating reasons where it is in the best interest of the Military Services to waive active enlisted service. However, this decision is viewed as an exception to the general provision and normally an ROTC cadet who is disenrolled voluntarily, or due to misconduct, will be called to active duty. If a waiver is granted, such decisions will be well documented.

If an individual is called to active duty and fails to serve, this person will be required to repay the government for the cost of his education. If some portion of the active duty commitment has been served, then the cost of education to be repaid may be reduced proportionately.

The Army and the Navy implemented revised scholarship contracts consistent with the DOD guidance, as of 1 Sepember 1981. The Air Force reported that they experienced a backlog in printing that delayed the field use of the new contract until December 1981. However, all Services are now operating with the revised contracts which contain the active duty commitment and the payback provision as conditions of accepting an ROTC scholarship.

Since passage of the payback provision in September 1980, no one has had to payback a scholarship; the amount of money collected to date has been zero. Understand, however, that the contracts with the payback provision were not used until Fall 1981, and the payback requirement does not go into effect until a scholarship holder incurs an obligation to serve on active duty at the beginning of the junior year. The few juniors—less than 1,400—who received first-term scholarships in Fall 1981 are expected to have traditionally high rates of retention. All but the very rare exception will serve in the military according to the terms of their scholarship agreement. Hence, little if any payback is anticipated from the juniors who accepted first-time ROTC scholarships in Fall 1981.

As for the 4,458 freshmen and sophomores who constitute most of the recipients of first-term scholarships awarded in Fall 1981, they will not incur an obligation to serve—or repay—until FY 83 or FY 84. We believe that because PL 96–357 is the law, more of these new ROTC cadets and midshipmen will fulfill their service obligations than have done so in past ROTC classes.

WITHHOLDING FAVORABLE DISCHARGES

Senator BYRD. The suggestion has been made that to improve recoupment of enlistment bonuses the Services should withhold favorable discharges from individuals receiving enlistment bonuses who leave the service before their term

of obligated service is completed until the appropriate amount of the enlistment bonus is repaid. What is the Department's view of this idea?

ANSWER. The Military Services are currently prohibited from withholding certificates of release or discharge documents at time of separation by 10 U.S.C. section 1168, which states in part: "(a) A member of an armed force may not be discharged or released from active duty until his discharge certificate or certificate of release from active duty, respectively, and his final pay or a substantial part of that pay, are ready for delivery to him or his next to kin or legal representative." The Department of Defense believes that withholding of a favorable discharge would be a violation of 10 U.S.C., section 1168. Additionally, Public Law 97–66 requires all servicemembers entering initial active duty after October 16, 1981 to complete at least 24 months of continuous active duty to qualify for Veterans Administration benefits. Exceptions apply to members separated for physical disability, hardship, and early release within 90 days of completion of term of service. Approximately 30 percent of male enlisted accessions fail to complete 36 months of active duty, approximately 20 percent of this attrition occurs within the first 18 months, therefore, barring the majority of these early losses from receiving veterans benefits. Withholding a favorable discharge for these individuals would have no impact on their eligibility for VA benefits.

BONUS MORALE PROBLEMS

Senator BYRD. In some respects, bonuses could appear to be detrimental to morale and unit cohesion. All crew members of a ship, for example, have a mission that is essential to the operation of the ship. Some receive large enlistment or reenlistment bonuses, others do not. Does this lead to a morale problem? How do you deal with it?

ANSWER. We are not aware of any problems. Non-bonus individuals have the opportunity to enlist for a bonus skill or to extend, retrain and reenlist for a bonus in another skill. Most non-bonus recipients, company clerks and yeomen for instance, realize there is a significant difference between their conditions of service and those of a bonus recipient such as aircraft mechanic, infantryman, or boiler technician. If they want a bonus they can retrain into a bonus skill. The military has an institutional pay system based on grade and length of service. Within this system, levels of compensation must be such that all military are "haves." No institution, especially the military, can afford a class of "have-nots". Adequate pay is needed in all skills to keep shortages from developing. Bonuses are needed in selected shortage skills to give accession and retention in these skills the additional boost not provided by the overall pay level. We have been working on a whole family of enlistment and reenlistment initiatives many of which have already been passed by the Congress. We hope to develop a balanced package which will be attractive and equitable to potential recruits, first-termers, and careerists and which will not seem unduly generous or constrained to any one segment of our military family. Our research shows that retention of any one particular segment of the force is based on a comparison of what can be earned in civilian life, not on what their compensation is relative to other portions of the military force.

ENLISTMENT BONUSES

Senator BYRD. I understand the Army is offering substantial increases in educational assistance under the Veterans Educational Assistance Program (VEAP) this year. What exactly is the Army's program—how much can an individual receive and what will the total cost of this program be in fiscal year 1982?

ANSWER. The Army's fiscal year 1982 Educational Incentive Program, Ultra VEAP, is designed to help the Army achieve its quality requirements—Mental Category I–IIIA college bound High School Diploma Graduates and to meet requirements in critical specialties. The Army contributes up to an $8,000 "kicker" to the Veteran's Educational Assistance Program (VEAP) fund of a two year enlistee meeting quality and skill criteria and up to $12,000 for a 3- or 4-year enlistee. The following qualifications must be met before entering this program:

Applicant must be a non-prior service enlistee

Applicant must be a high school diploma graduate who scores 50 or higher or the Armed Forces Qualification Test

Applicant must enlist for active duty
Applicant must enroll in the basic VEAP for a minimum of 12 months
Applicant must enlist in a selected Military Occupational Specialty.
The maximum benefits are displayed below:

	Personal contribution	Matching	Kicker	Total
2-yr enlistee	$2,400	$4,800	$8,000	$15,200
3, 4-yr enlistee	2,700	5,400	12,000	20,100

Note: Total cost is projected to be approximately $181,600,000 for the fiscal year 1982 cohort although these moneys would not be paid to participants until at least 1984 and beyond when the fiscal year 1982, 2-yr cohort could first request benefits. An exact cost cannot be determined at this time because the VA and the Army have no historical data from which to predict exact figures.

Senator BYRD. Does the Army also give enlistment bonuses to individuals who receive this large amount of educational assistance.

ANSWER. Yes. The Army does offer both educational assistance and enlistment bonuses in 35 military occupational specialties (MOS). These MOS represent approximately 10 per cent of all available entrance MOS.

Senator BYRD. How many individuals will receive both this enhanced educational assistance and an enlistment bonus in FY 1982?

ANSWER. The Army cannot project how many individuals in the FY 82 cohort will actually receive educational assistance for two reasons: (1) The Veteran's Educational Assistance Program (VEAP) is contributory and requires a minimum of one year participation before an individual can receive benefits. (2) In FY 1982 the Ultra VEAP program was offered for the first time nationwide and the Veteran's Administration does not have sufficient historical data to project continuation and usage rates. The approved Army program projects up to 21,500 enlistees receiving enlistment bonuses in FY 82 who may also participate and use the enhanced educational benefits.

Senator BYRD. Please indicate for the record the specific skills for which the VEAP "kicker" and an enlistment bonus will be paid in FY 1982.

ANSWER. The Army is offering both Ultra VEAP and enlistment bonuses in the following Military Occupational Specialties (MOS):

MOS 05B—Radio Operator.
MOS 05C—Radio Teletype Operator.
MOS 05D—Electronic Warfare/Signal Intelligence Identifier Locator.
MOS 05G—Signal Security Specialist.
MOS 05H—Electronic Warfare/Signal Intelligence Interceptor—IMC.
MOS 05K—Electronic Warfare/Signal Intelligence Non-Morse Interceptor.
MOS 11X—Infantry.
MOS 12B—Combat Engineer.
MOS 12E—Atomic Demolition Specialist.
MOS 13B—Field Artillery Cannon Crewman.
MOS 13C—Tacfire Operations Specialist.
MOS 13E—Cannon Fire Direction Specialist.
MOS 13F—Fire Support Specialist.
MOS 13R—Fire Finder Radar Operator.
MOS 15D—Lance Crewmember.
MOS 15E—Pershing Crewmember.
MOS 15J—Multiple Launched Rocket System; Lance Operations/Fire Direction Specialist.
MOS 16C—Hercules Fire Control Crewmember.
MOS 16D—Hawk Missile Crewmember.
MOS 16E—Hawk Fire Control Crewmember.
MOS 19A—Armor.
MOS 19K—Armor—M1 Tank.
MOS 19D—Cavalry Scout.
MOS 21G—Pershing Electronic Materiel Specialist.
MOS 54C—Smoke Operations Specialist.
MOS 54E—Nuclear Biological Chemical Specialist.
MOS 82B—Construction Surveyor.
MOS 82C—Field Artillery Surveyor.

MOS 82D—Topographic Surveyor.
MOS 93H—Air Traffic Control Tower Operator.
MOS 93J—Air Traffic Control Radar Operator.
MOS 96C—Interrogator.
MOS 98C—Electronic Warfare/Signal Intelligence Analyst.
MOS 98G—Electronic Warfare/Signal Intelligence Voice Interceptor.
MOS 98J—Electronic Warfare/Signal Intelligence NC Interceptor.

Senator BYRD. My calculations show that an individual who receives the maximum VEAP educational assistance "kicker" and participates in the program at the highest level, and who also receives the maximum enlistment bonus of $8,000 will receive a total of $28,100 for enlisting, above his regular military compensation. Isn't this a lot to give a high school graduate enlisting in the infantry for four years?

ANSWER. In order to attract high school diploma graduates (HSDG) mental category (MC) I–IIIa to the combat arms, the Army believes it must use a wide range of effective incentives These quality individuals will potentially be the non-commissioned officers in the combat arms of the 80s. Presently, the authorization to offer $8,000 is not being used. The maximum bonus currently offered is $5.000 Individuals who would potentially receive the total amount ($28,100) would serve in the combat arms which have historically been difficult to recruit for because of their perceived disamenities such as little correlation to civilian occupations; lower prestige, greater discomforts, and less similarily between peace time and war time missions. Furthermore, in the past the combat arms have not attracted the quantities of HSDGs in the upper mental categories that the Army requires. HSDG MC I–IIIs have lower attrition rates and possess the ability to obtain and retain military skills more easily than those of less mental aptitude. Although $28,100 may appear to be a lot, only the $8,000 enlistment bonus would be paid during the service member's first twenty months of service. Educational benefits totalling $20,100 could only be earned if a service member contributed up to $2,700 of his/her own money and maintained an active VEAP account for three years. In addition, no benefit is paid unless the individual enrolls in school and applies to the Veterans Administration.

Senator BYRD. Why do you have to give increased educational assistance and an enlistment bonus to individuals enlisting for four years in the Army combat arms? Have you ever tried to determine what would happen if you just offered one or the other?

ANSWER. During the enlistment bonus test directed in the Conference Report accompanying the "Uniformed Services Pay Act of 1981", the effects of a wide range of bonuses will be examined to determine their effectiveness. In fiscal year 1982, the Army's enhanced educational assistance program, Ultra VEAP, is offered nationwide for the first time. Should recruiting results and continuing analysis support limiting educational assistance to 2- or 3-year enlistees, the Army will re-examine the need for offering both incentives to a four year enlistee.

MARINE CORPS USE OF ENHANCED VEAP

Senator BYRD. Why have you limited this enhanced VEAP porgram to the Army? Doesn't the Marine Corps face similar challenges in recruiting people for the combat arms?

ANSWER. Each Service may request authority to implement an enhanced VEAP program, with the understanding that the Service concerned must fund the add-on monies to the basic VEAP program. To date, the Marine Corps has not made such a request to ASD(MRA&L).

GI BILL

Senator BYRD. We have heard a great deal about how a new GI bill will help recruiting. If a new GI bill is enacted, do you think benefits should be limited only to those who have not received either an enlistment or reenlistment bonus?

ANSWER. If a new GI bill is enacted, it should not be limited only to those who have not received enlistment or reenlistment bonuses. An educational incentives program should be an additional incentive to join or remain in a military service. In addition, those personnel who receive bonuses are in areas of critical need to the Department of Defense and should not be penalized from receiving educational benefits because they are in these areas.

QUESTIONS SUBMITTED BY SENATOR J. JAMES EXON

RECEIPT OF SPECIAL PAYS

Senator EXON. General Tice, what portion of the enlisted population in each Service is receiving some sort of bonus, special pay or proficiency pay?

ANSWER. We do not have data currently available on the total number of individuals receiving bonuses, special pay or proficiency pay. We do know that in fiscal year 1982, about 580,000 payments will be made to enlisted personnel in these categories. Since some personnel receive two or more special pays, the actual number of individuals receiving these pays will be less than 580,000. Even counting the multiple payments, however, the 580,000 payments are less than one-third of the enlisted population of approximately 1.8 million.

NAVY REENLISTMENT BONUSES

Senator EXON. General Tice, according to the figures from your office, 80 percent of the reenlistees in the Navy are programmed to receive a reenlistment bonus in fiscal year 1982. Doesn't this suggest that the current system of regular military compensation is not meeting the Navy's needs?

ANSWER. The actual percentage of Navy's reenlistments in fiscal year 1982 that are anticipated to be SRB related is 55 percent. This does not necessarily suggest that the current system of regular military compensation is unable to meet the Navy's needs. The size of Navy's bonus program is more reflective of the petty officer shortages being experienced in many of Navy's skills (primarily attributable to the erosion of the comparability of military pay in the last half of the 1970s) and of the retention levels which must be achieved to recover from these shortages.

Navy has pursued special and incentive pays within the current pay structure, SRB among them, commensurate with the retention levels required for petty officer inventory improvement. These types of pays are most efficient, however, with a sound basic pay foundation. The positive actions taken by the 96th and 97th Congresses in the military compensation area have significantly contributed to the restoration of that foundation, and to Navy's ability to achieve needed retention levels. With continuation of Congressional support of maintenance of competitive pay levels, combined with approval of Navy's planned SRB programs, Navy estimates that substantial inroads will be made over the next several years into the shortages currently being experienced.

REENLISTMENT BONUSES TIED TO BASIC PAY

Senator EXON. Why is the size of the reenlistment bonus tied to basic pay? This means that the size of reenlistment bonuses increase with every pay raise, regardless of whether or not such an increase is warranted.

ANSWER. Reenlistment bonuses have been tied to basic pay off and on since 1833, and continuously since 1954. The link between basic pay and bonuses was established so that various ranks would be equally "drawn" to bonus awards. With increases in basic pay, a fixed bonus payment becomes a smaller percentage of the individual's total pay and, therefore, the effectiveness of the retention incentive declines. A bonus payment which is computed as a function of the service member's basic pay, retains the same percentage relationship to the individual's total pay and would be expected to retain approximately the same "pulling power" as a retention incentive.

"DE-LINKING" REENLISTMENT BONUSES FROM BASIC PAY

Senator EXON. Has the Department ever considered "de-linking" reenlistment bonuses from basic pay?

ANSWER. The Conference Report accompanying the Department of Defense Appropriation Act, 1982, directed the Department to submit a report to the Congress no later than 1 May 1982 which provides a thorough evaluation of possible modifications or alternatives to the present system for determining SRB awards. The Conference Report language directs such possibilities be addressed as eliminating the direct link to basic pay, fixed sum amounts, and use fractional bonus multipliers to "assure that the bonus amounts reflect specific skill retention requirements rather than basic pay levels." A task group has been formed consisting

of representatives from each Service, who will work closely with the ASD (MRA&L) staff, to prepare the report and appropriate legislative changes.

REENLISTMENT BONUSES AS PART OF INCOME

Senator EXON. We are now paying reenlistment bonuses to people with 10 to 14 years of service who reenlist for a third tour. Especially in the Navy, most individuals will have received a bonus at every reenlistment point and most probably consider the bonuses as part of their income. What happens when there is no reenlistment bonus after the fourteenth year of service? By then, won't the individual feel he is taking a substantial reduction in income by reenlisting, since he is no longer eligible for a bonus?

ANSWER. Reenlistment bonuses paid to people with 10 to 14 years of service (Zone C) may be paid for obligated service through the 16th year. At this point in an enlisted member's career, the prospect of retirement eligibility can be expected to exert approximately the same "pulling power" as a reenlistment bonus for people with 16 or more years of service. However, we have had less than two years of experience with payment of Zone C bonuses. We will be tracking the retention behavior of these bonus recipients.

SELECTIVE REENLISTMENT BONUS PROGRAM GROWTH

Senator EXON. General Tice, according to figures supplied by your office, the Selective Reenlistment Program has grown by over 150 percent since fiscal year 1980. Considering the large increases in regular compensation enacted by Congress during this same period, what do you think accounts for this large increase in reenlistment bonuses?

ANSWER. Although reenlistment rates have improved dramatically as a result of compensation improvements, the economy, and real SRB program growth beginning in fiscal year 1979, the career fields in which we are paying bonuses have significant shortages in mid-career manning. We need to keep everyone we can in these years groups and attract as many experienced prior service men as possible back into these shortage year groups. We cannot precipitously reduce bonus levels or skills in a one or two year period. To do so gravely affect retention. Instead, we "step" the program down a level or two per year. As the short year groups ('weak cohorts") age out of the bonus zones (year 14 maximum) they will be replaced by better manned year groups ("strong cohorts"). Since the level of retention required to meet future experience levels is not as great for these strong cohorts, lower bonus multiples or termination of bonus skills will be possible. This is already beginning to happen in Zone A.

NUMBER AND PERCENTAGE OF REENLISTEES RECEIVING REENLISTMENT BONUSES

Senator EXON. For each Service, show the number and percentage of reenlistees that will be receiving a reenlistment bonus in fiscal year 1982 along with the number and percentages receiving a reenlistment bonus for the last three fiscal years.

NUMBER AND PERCENTAGE OF REENLISTEES RECEIVING REENLISTMENT BONUSES, FISCAL YEARS 1979–82

	Army		Navy		Marine Corps		Air Force	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Fiscal year:								
1979	15,116	19	10,323	29	2,496	20	3,954	8
1980	15,367	19	14,309	34	2,996	24	5,088	10
1981	21,910	28	20,644	40	10,035	63	19,480	32
1982	21,389	25	26,360	55	10,061	63	27,958	48

CRITERIA FOR DETERMINING REENLISTMENT BONUS SKILLS

Senator EXON. Please give the Committee more details on the criteria you use to determine which skills should be eligible for reenlistment bonuses. Does a skill have to be undermanned by a certain percentage to trigger a bonus award? How do you determine the appropriate level for a bonus in a particular service?

ANSWER. Reenlistment bonuses are paid only to skills with chronic retention problems and/or severe manning shortages. Annually, each Service submits to the OSD its proposed bonus program in terms of skills in which they desire to pay reenlistment bonuses, levels of bonus (multipliers), and the zones (A, B or C) in which they desire to offer payments. In OSD we review those proposals, looking primarily at what the manning is in that skill by zone (experience level), past difficulty retaining people in that skill, future manning requirements, and improvements to be expected at various bonus levels. Key factors are training and replacement costs, manning shortages by zone, overall skill manning, and changes in requirements. This review is done for each skill in which a bonus is desired to be paid. Bonus awards are not triggered automatically by a certain percentage of undermanning. An evaluation of all of the foregoing factors is made, together with the essentiality of the skill to the Service's mission, before a bonus award is approved. The appropriate level for a bonus in a particular Service is determined by the amount of increased retention needed to overcome or alleviate the shortage in a zone or zones within a skill. Improvement factors have been developed for each bonus level based on research of bonus payment experience over the past ten years. Application of these factors to the retention being experienced in a skill provides a measure of the improvement to be expected from award of a particular bonus level.

[Dr. Kenneth J. Coffey, a witness at the hearing, did not testify. His prepared statement follows:]

PREPARED STATEMENT OF DR. KENNETH J. COFFEY, ASSOCIATE DIRECTOR (MILITARY), FEDERAL PERSONNEL AND COMPENSATION DIVISION

Mr. Chairman and Members of the Subcommittee, we appreciate the opportunity to appear before you again today to discuss a most pressing problem facing the military services; that of how to best use monetary incentives to attract and keep sufficient numbers of quality people to man the force. We believe that in addressing this problem the two basic questions that need to be asked are: What are the most reasonable cost-effective means of achieving the military manpower objectives? And, do military managers have the necessary tools to achieve this overriding goal?

There are obviously many nonmonetary, quality-of-life factors—such as the necessity for frequent changes in location, family separations, and long work hours—which are, to a greater or lesser extent, within the services' ability to control and which impact on recruitment and, more importantly, on retention. The services' management of these nonmonetary factors could be the topic of a separate discussion. However, the focus of my comments today is on the use of monetary incentives, and what mix of incentives are the most cost-effective and provide management with the most appropriate tools.

As we have testified before, we do not see pay, bonuses, specialty pays, educational benefits, or any other component of the compensation system as issues in and of themselves to be looked at in isolation. Rather, we see the total compensation package, encompassing the complete life-cycle of a military member, as a set of management tools to be used to achieve specific mission-related goals and requirements. We have also said before that we believe fundamental changes are needed in the way military members are managed and paid and that, until some basic military management concepts change and reforms are instituted in the compensation and retirement systems, the Congress will be bound to dealing with the pay issue—including bonuses, educational benefits, and all other monetary incentives—on a piecemeal basis. But, we recognize that these fundamental changes will not come easily. In the meantime, manpower problems still need to be dealt with in the most cost-effective way possible and in a way that will not create new and expensive problems for the future.

OVERVIEW OF THE MANPOWER PROBLEM

Before discussing the various alternative incentives for attracting and retaining the correct number and quality of people to meet the services' active duty manning goals, believe it would be appropriate to briefly review the nature of the manpower problems the services face. I know this committee is well aware of these problems, but I believe an overview would help place the various on-

going monetary programs as well as some of the initiatives being considered into proper perspective.

Since switching to the All-Volunteer Force (AVF) in 1973, the supply of military manpower has become almost entirely dependent upon conditions of the labor market. I will not debate the merits of the AVF versus conscription, but I will point out that, except for first-termers, this situation would change little regardless of whether we have an AVF or draft system. The continuing problem will be how to adjust compensation and other benefit policies to attract and keep the needed number, quality, and mix of people at the lowest possible cost.

Despite perceptions to the contrary, over the 8 years of the AVF, the Active Force has never been more than 1.5 percent below their total funded authorized strength levels. In fact, for at least the last 2 fiscal years, the Active Force has essentially stood at its authorized strength. Also, the Active Career Force—generally considered to be those with more than 4 years of service—has remained relatively stable for each of the services. Serious manning level shortfalls have been experienecd in the reserves, but in the Active Force, the problems do not seem to be in recruiting and retaining the right number of people in aggregate. Rather, the problems are in recruiting and retaining quality people with the right mix of skills and experience to man the force.

The skill imbalance problems vary from service-to-service, from grade-to-grade, and from occupation-to-occupation, but they can generally be categorized as—

Shortages in skills that are highly marketable in the civilian economy;

Shortages in skills that are not marketable, but which are generally thought of as being unattractive; and

Overages in occupations which are relatively easy to fill.

We could discuss at length the specific manpower problems facing the services and the intensity of the problems for any particular skill, but to give you some flavor for the kinds of manpower problems I am talking about, I will cite just a few examples.

During 1981, the Air Force projected that, by the end of the fiscal year, it would be short about 15,000 E–5s through E–7s in selected occupations—generally highly marketable avionics occupations. However, as the Air Force expected to meet its total authorized yearend strength level of about 188,000 for these grades, the 15,000 shortage would be offset by personnel at the same grades in other occupations. Using specific skill level and percentage of manning criteria, the Air Force also identified 73 "chronic critical skill" shortage occupations. It projects that, by the end of fiscal year 1982, it will be about 11,300 people (18 percent) short in these occupations. However, in mentioning this example, it is important to note that the Air Force's list of critical skill shortages, and the reasons for them, is continuously being reviewed and is in an almost constant state of change.

The Navy also has shortages in skills that are highly marketable, particularly nuclear and computer technicians and operations specialists. The Army projects shortages of air traffic radar controllers, maintenance mechanics, and other similar skills in high demand in the civilian economy. As I have indicated before, we believe that to attract and retain people with these skills will require a different set of solutions than is required to retain people without marketable skills.

Each service also has shortages in skills which are generally thought of as being unpleasant or unattractive for whatever reason—possibly because of an unpleasant working environment, long family separation, or because it is a skill without any demand in the civilian economy. The Navy, for example, has a shortage of boiler technicians. While being a boiler technician does not require a heavy training investment, the work environment—in the engine room of a ship—is generally unpleasant, particularly in diesel-powered ships. The Army has had a chronic problem filling its combat arms positions—skills that are both dangerous and without a civilian occupation counterpart. Solutions to these problems will obviously require an innovative set of solutions which may differ substantially from the kinds of incentives needed to keep people with marketable skills.

Finally, there are some skills in all of the services which are relatively easy to fill and which are in a surplus position. These would include administrative clerks and other similar occupations. The Army, for example, has too many specialists in material control, accounting, material storage and handling, and behavioral science. Incidentally, one reason people with these types of skills stay in the services is because they are generally paid more than their age and

occupation counterparts are paid in the private sector. One problem facing the services, then, is how to get and keep people in occupations where they are needed the most.

In summary, on an aggregate basis, each active service is essentially fully manned at their authorized strength levels. However, the mix of skills and grades—which the services equate with experience—is out of balance, with large surpluses in some skills and equally large shortages in others. The point I would like to emphasize is that these conditions create vastly different types of manpower supply problems, both in recruiting and retention. A solution which fits one problem does not necessarily fit others. In fact, a solution to one problem—for example, one of recruiting a sufficient number of high-quality people—could, if applied across-the-board, exacerbate other problems—for example, one of retaining highly trained technicians.

I would also like to emphasize that the manpower staffing problems are very dynamic and fluid. A problem today may not be a problem next month or next year. Both the supply of the right kind of people and the demand for them changes constantly as a result of changing internal and external conditions.

Given the nature of the services' manpower problems, then, what might be the ideal ingredients for a management system to deal with the problems? What tools would a manager in any large organization need to overcome his manpower staffing problems in the most cost-effective and efficient manner possible?

While whole textbooks have been written on this topic, it seems to us that there are basically five key ingredients.

1. Managers should have adequate resources at their disposal to deal with the problem.

2. Managers should have the authority to apply the resources in a timely manner and an early warning system to know when problems are developing.

3. The problem-solving solutions should be flexible so that managers can make adjustments to them—add to, subtract from, or apply differently—as conditions change.

4. Managers should have the authority to apply resources to manpower problems in the most cost-effective manner; in other words, to target the money to the problem.

5. Managers should have an adequate feedback and evaluation system so that they can determine whether the solutions are working or when more or less resources are needed.

We see this as somewhat of an ideal environment in which all managers would no doubt like to function. We also recognize that it may not be totally achievable, either for business or Government. There are limits to available resources and constraints on management authority. Nevertheless, within the realm of judicious oversight and control by the Congress, we believe that the tools provided to Defense managers should strive to include the elements I have just described.

ALTERNATIVES FOR ACHIEVING RECRUITING AND RETENTION GOALS

Now that I have given you a brief overview of the nature of the services' manpower problems and our view of the management tools needed to respond to the problems in a timely and cost-effective manner, I would like to discuss some of the alternative monetary incentives for achieving recruitment and retention goals. It would not be possible to comprehensively discuss all the various incentives currently in use, let alone all the options which might be available. But, before I discuss specifically the active duty enlistment and reenlistment bonus programs—the committee's primary interest today—I will briefly mention some of the incentives currently in use, as well as those under consideration by Defense and the Congress. Each of these I will discuss in terms of how well they meet the criteria I have just laid out.

REGULAR MILITARY COMPENSATION

Probably the most obvious and important attraction and retention incentive currently in use by the services is regular military compensation (RMC), generally considered as the military equivalent to a civilian salary. It is composed of basic pay, basic quarters and subsistance allowances, variable housing allowance, and the value of the tax advantage for the nontaxable allowances. Obvi-

ously, without a reasonable salary, it would be very difficult to attract and keep the people the services need.

While virtually all the studies we have seen show that the level of RMC is probably the most important factor in an enlistment or reenlistment decision, it has serious drawbacks as a management tool. First, because of the way this component of the pay system is structured—pay rates being based on rank, years of service, and "need" rather than on the basis of work performed—it is probably the least flexible component of the pay system insofar as addressing specific manpower problems. This system results in paying people in some occupations far more than is needed to attract and keep them and paying people in other occupations far less than is necessary to satisfy the requirements of those occupations. Second, numerous studies have shown that most service members—enlisted and officers—underestimate the value to them of RMC. This is because RMC includes a computed tax advantage on nontaxable allowances and the value of the advantage differs for each individual. Also, not all members, even at the same grade and longevity step, receive the same allowances. To the extent that pay is not visible to the service members, it is worthless as a recruitment or retention tool. Third, many members see the RMC system as inequitable because two people at the same grade, with the same years of service, and doing the same work may receive a different RMC depending on their marital status, number of children, and whether they live on or off base. To correct the visibility and equity problems, we and many others have long advocated changing to a military salary system.

In addition to its lack of flexibility, visibility, and equity, the RMC component of the military pay system also has other drawbacks in terms of the criteria I mentioned earlier. Defense has not always been given adequate resources—pay has been capped—pay is difficult to target—impossible to target by skill under existing authority—and the feedback mechanism does not reliably tell managers whether an increase has helped solve specific problems.

SPECIAL AND INCENTIVE PAYS

Another group of incentives which are generally much more in tune with the key management ingredients I mentioned are the whole host of special and incentive pays. These include such things are (1) aviation career incentive pay, (2) submarine duty pay, (3) diving pay, (4) sea duty pay, (5) hazardous duty pay, (6) jump pay, (7) special pays for physicians, dentists, optometrists, and veterinarians, (8) proficiency pay, and (9) others I have not mentioned.

These pays have generally been provided to solve some special problem. However, they also lack in flexibility, timeliness of application, and they tend to become institutionalized and lose their value as a recruitment or retention incentive. For example, diving duty pay for officers was set at $110 per month in 1961 and has remained at that level until just recently. As a result of this committee's initiatives, the 1981 pay bill increased diving duty pay for officers to $200 per month, but, in the meantime, the value of the $110 had dropped to $36.34 in constant dollars, and the Navy experienced severe shortages in this occupation.

EDUCATIONAL BENEFITS PROGRAMS

An increasingly difficult problem the services, particularly the Army, have had to face in recent years is the declining enlistments of high-quality, high-school diploma graduates. An incentive device that has become very popular with the services and the Congress to help resolve this problem are educational benefits.

The common objective of the current programs, as well as the proposed "GI Bill," is to provide the services with an educational assistance program that would prompt enlistments of adequate numbers of high-school graduates and other individuals who would score high on the armed services entrance exams. Because recruiting trends since the Vietnam-era GI Bill terminated at the end of 1976 have not been favorable, the services, in principal, are supporting the prospects for the more expensive "GI Bill."

The services' support is based in large measure on enlistment statistics since the end of the Vietnam-era GI Bill which show an overall shift of new recruits from the top mental categories to the least acceptable mental category. They point out, for example, that recruits scoring in mental categories I and II dropped from 38 percent in fiscal year 1976 to about 33.5 percent in fiscal year 1981 while at the same time recruits scoring in the mental category IV rose

from about 7 percent to about 18 percent. The Army experiences the greatest reductions in quality recruits, falling from about 31 percent in mental categories I and II in 1976 to only about 23 percent in 1981. At the same time, Army recruits in mental category IV increased from about 15 percent in 1976 to about 31 percent in 1981.

The downward trend in the quality of new recruits which had been fairly constant from 1977 through 1980, and which the services point to in justifying a new GI Bill, appears to have stopped, at least temporarily. Preliminary 1981 data indicates a 7-percent improvement over 1980 in mental categories I and II recruits, and a better than 13 percent decline in recruits scoring in mental category IV. Unless 1981 is an aberration, these new numbers would seem to weaken the services' argument that a new GI Bill is needed at this time.

Although the purpose of the Vietnam-era GI Bill, like the World War II and Korean War GI Bills, was to compensate service personnel for their sacrifices during a war period, it also served as a recruiting device, one which military officials would like to have once more.

Several bills proposing such increased postservice educational benefits have been submitted to the Congress. However, only one, the Veterans Educational Assistance Act of 1981 (H.R. 1400), has received congressional action. This bill, as reported by the House Committee on Veterans Affairs, would limit eligibility to enlistees having a high-school diploma or an equivalency certificate. But, even with this limitation, the bill could cost $2 to $5 billion annually.

There are currently about 10 different GI Bill proposals pending in the Senate Committee on Veterans Affairs, and they vary considerably as to the amount of benefits, transferability, and other provisions.

Whereas the old GI Bills, which people so fondly remember, were enacted in response to the generally very low pay levels of that era and were used as a readjustment benefit for military members serving in a wartime or emergency situation, the common purpose of the pending GI Bill proposal is to provide new recruitment and retention incentives.

Yet, when one considers that any recruitment or retention incentive should be a tool used by management to solve manpower problems, one can begin to question the reasonableness of the GI Bill proposals. If, for example, H.R. 1400 was enacted, the application of the resources would be out of Defense management's control; managers would not have the authority to apply or remove the incentive on a timely basis as the high-quality recruit problems increased or diminished; managers would not have flexibility to adjust the incentive as conditions change; and problems in Defense's feedback system would not tell managers how well their programs might be working. Further, because of its very nature, the GI Bill would very soon become institutionalized and be looked upon as a "right" rather than as an incentive or tool to be used to solve a particular problem.

Further, because this "incentive" would be paid to many people who would not need it to join or stay in the service, most of the expenditure would be unnecessary. For example, if the GI Bill is enacted which is limited to high-school graduates or those with an equivalency certificate, the supply of such people is expected to increase by about 5 to 10 percent. In other words, to attract every 21st and possibly 22nd quality recruit, incentives would be paid to 20 others who could be expected to enlist without the incentive. As a consequence of this, the cost per additional quality enlistee would be excessively high, up to $200,000 in one recent estimate.

ENLISTMENT AND REENLISTMENT BONUS PROGRAMS

Active duty enlistment bonuses and selective reenlistment bonuses are Defense's two major cash incentive programs for attracting and retaining personnel in skills where critical shortages exist. In terms of meeting the criteria of being good management tools, these programs probably come closer than any other monetary incentives currently being used by the military. For the most part, adequate resources have been made available to mangers, Defense managers have the authority to adjust the application of resources in a timely manner, managers generally have had the authority to target the resources to the specific problem, and managers get relatively good and timely feedback on how well the resources applied are working—although there is some question about this last item.

While the programs themselves come very close to having all the key ingredients, that does not mean that Defense managers have always taken full advantage of the latitude and flexibility these programs offer nor does it mean that bonuses are necessarily the most cost-effective solution to a particular problem.

Before I comment on the cost-effectiveness of the bonus programs and on some of the management problems we and others have observed, let me just briefly outline the 7-year history of these two bonus programs.

Over the years, all of the services have had, from time to time, problems meeting their manning requirements. This was true even during the draft era in terms of the Career Force. In 1974, the Congress authorized the current enlistment and selective reenlistment bonus programs to replace other less targeted and less flexible bonus programs which were proving to be costly and ineffective. The law initially authorized enlistment bonuses of up to $3,000—increased to $5,000 in October 1980 and now increased to $8,000 in the new October 1981 Uniformed Service Pay Act—to attract quality people to enlist in those occupations where shortages exist. The basic bonus authorization legislation provides Defense managers the flexibility to pick the occupations where enlistment bonuses will be paid and to set the amount of the payment up to the maximum.

Selective reenlistment bonuses were initially authorized for up to $12,000, except for Navy nuclear technicians who were authorized up to $15,000. These maximums were subsequently increased to $16,000 and $20,000, respectively.

The key to both of these programs, and the instruction the Congress gave to Defense managers, was that (1) the bonuses were to be applied selectively to specific problem areas and (2) they were to be used only after Defense had determined that, for the particular problem. bonuses were the most cost-effective solution, i.e., that all other incentive or investment options would be less cost-effective. In other words, the Congress expected Defense to apply good management principles and "manage" the programs.

Since the programs were introduced in fiscal year 1975 through the proposed fiscal year 1982 budget, both have experienced rapid growth. The number of occupations covered by enlistment bonuses has grown from 68 to 120, and occupations covered by selective reenlistment bonuses, including the various zone levels, has grown from 598 to 673. Also, the number of payments made under both programs has grown from 65,182 in fiscal year 1975 to an estimated 111,368 for fiscal year 1982. The dollar value of new payments has grown from $172.3 million to an estimated $695.4 million for the same period. Appendices I and II provide more detail on where the growth has occurred and which services depend more heavily on the bonus programs.

According to DOD estimates, new fiscal year 1982 enlistment bonuses will be paid to about 40,000 enlistees out of total enlistments of 340,000 and selective reenlistment bonuses will go to 71,340 out of 192,400 reenlistees. The growth of the bonus programs is further evidenced by the fact that bonuses for fiscal year 1982 will account for almost 25 percent of all enlistment and reenlistment bonuses awarded since these programs began. Bonus awards during the period fiscal year 1975 (first full year of operation) through fiscal year 1982 are closing in on the $3 billion mark. The most dramatic growth has occurred in just the last 2 years—fiscal years 1981 and projected 1982.

HOW EFFECTIVE ARE THE BONUS PROGRAMS?

The questions of how successful the bonus programs have been and whether Defense managers have used the tools at their disposal in the most cost-effective manner are difficult to answer. Much depends on how effectiveness is measured. Defense officials have told us and have testified that both the enlistment and reenlistment bonus programs have been extremely successful. They point out that these bonus programs are less costly than their predecessors and that recruitment and retention rates have improved since the programs were initiated.

We agree with DOD with regard to the relative cost of the existing bonus programs versus the programs they replaced. We noted that at their peak in fiscal year 1973, the old bonus programs—combat enlistment bonuses, regular and variable reenlistment bonuses, and proficiency pay—amounted to $527 million. This amount was not surpassed under the new programs, even in current dollars, until fiscal year 1980. DOD estimates that the enlistment and selective reenlistment bonuses, proficiency pay—which has increased rapidly over the last couple

of years—and carryovers from the old bonus program cost an estimated $736 million in 1981 and will cost about $282 million in 1982. However, in constant 1973 dollars, even these amounts are less than the cost of the old bonus programs—by $166 million for fiscal year 1981 and by $147 milion for fiscal year 1982.

While comparing relative program costs is certainly one way to measure program effectiveness, there are several other questions which need to be asked, and answered, before one could reasonably conclude that these are the most cost-effective programs for resolving specific skill shortage problems. For example, are bonuses the least costly method of attracting the additional number of people needed to fill shortages in specific skills? What cost-benefit analyses have been made of the bonus programs, and what have they shown—i.e., what is the marginal cost of bonuses to attract or retain those who would not otherwise join or remain in the services? Are cash bonuses being used only after other incentives or investments are shown to be less cost-effective?

Our office has just begun a study which includes as one objective to determine how well these questions of program effectiveness have been answered. Through a number of different literature searches, we have identified about 150 studies which deal either directly or indirectly with the question of bonus program effectiveness.

Our preliminary findings are that, while evidence exists that the enlistment and selective reenlistment bonus programs have improved recruitment and retention rates, the studies do not show what the cost-benefit ratio is for bonus programs as compared to other recruitment or retention investments. Most of the studies tend to look at bonuses in isolation, rather than in terms of whether bonuses are more or less cost-effective than other alternatives. For example, a 1977 Rand study concluded that a 10-percent increase in first-term reenlistment bonus amounts can be expected to yield about 20 percent more first-term reenlistments. The yield was not as high for enlistment bonuses, with a 10-percent increase in value producing only a 12.5-percent increase in enlistments.

Effectiveness studies of this type are very valuable as part of the management information feedback system, but the problem is that they do not provide sufficient insight to determine whether, on a dollar-for-dollar basis, bonuses have a higher or lower payoff than other alternatives—both alternative incentives or other investments such as more or less recruiters, or more or less advertising.

We recently had the opportunity to be briefed on a study conducted by the Center for Naval Aanlysis which focused on the factors affecting the supply of first-term enlistees. This study looked at the relative importance to a new recruit of various policies and programs and also the relative cost of each policy and program for each additional enlistee attracted by it. In general, their study concluded that (1) the adequacy of regular military compensation was the most important factor affecting recruitment, (2) the loss of GI Bill benefits at the end of 1976 caused a decline in enlistment supply, but to reinstate it would be an extremely expensive way of increasing the supply as compared to enlistment bonuses, and (3) for small expansions of supply, investments in more recruiters and advertising are more cost-effective than either bonuses or a new GI Bill. We believe that this and similar studies of the variables, affecting retention in specific skills, would be extremely valuable to the subcommittee in its decisionmaking process.

ARE THE BONUS PROGRAMS BEING PROPERLY ADMINISTERED?

As I mentioned earlier, while the bonus programs seem to have most of the key ingredients for good management, this does not necessarily mean that the tool is being wisely or properly used. We are living in an era where terms like frugal, prudent management of resources, and thrifty spending have been emphasized and reemphasized. Everybody is being asked to tighten their belts, to reduce waste, and save. These programs should be treated no differently. Opportunities for doing things better and, most importantly, more cost-effectively cannot be ignored.

Questions that need to be asked in this regard include: Are bonuses really selective, as intended? Are bonus computations and payments accurate? To what extent are bonus recipients not being used in their occupational specialty? Do manpower requirements reflect actual needs or what the services would like to have? To what extent are bonus contracts not fulfilled, and what are the

reasons? Are bonuses paid to people who probably would reenlist without them? How are the bonus programs monitored?

Recent reviews by the Defense Audit Service and the service audit agencies suggest millions of bonus dollars are being wasted through deficiencies in program administration. Problems identified cover the whole spectrum of the bonus cycle, from the skill selection process, through assignment and utilization, and into contract terminations. Here are some highlights of these reviews.

Selectivity—A recent Naval Audit Service report indicated that the Navy controls the number and level of selective reenlistment bonuses by source rating rather than by enlisted classification codes, a more selective method for choosing bonus recipients As a result, some occupations were on the bonus list which probably should not be, while others were not on the list although they probably should have been. In a test of submarine personnel, the Naval Audit Service reported in June of this year that 222 bonuses totalling $2.2 million were paid to people in overmanned occupations. Conversely, other critical occupations were undermanned, but bonuses were not being paid.

In September 1980, the Army Audit Agency reported that the Army has no formal method for prioritizing skills based on essentiality and that the selective reenlistment bonus program uses old data to make bonus selections. One test showed that bonuses amounting to $6.8 million in 13 occupations may have been improperly paid due to the poor selection process. Similar problems were noted in the enlistment bonus program, where the auditors questioned the payment of $2 million in a test of about one-third of the eligible occupations.

While our study is in its early stages, we have seen some indications that there may be a problem with timely applications of the bonus tool, both in getting an occupation on the bonus list and in getting it off. We were told that in the Air Force, for example, it may take up to 3 years to get an occupation off the reenlistment bonus list after it is no longer short of personnel.

Tracking.—Both the Army and Navy have poor systems for tracking bonus recipients, according to service auditors. Army Enlisted Master Files, a key monitoring device, failed to show enlistment bonuses for 95 percent of the people receiving such bonuses during the auditors' test period. Such poor recordkeeping makes tracking virtually impossible. Similar problems were noted by the Navy auditors who concluded that all-kept management information systems make it difficult to determine what benefits the Navy receives from the skills for which bonuses are paid.

Assignment and use—Bonus recipients being assigned or used outside their critical skills is not uncommon. In a recent study of the selective reenlistment bonus program, the Defense Audit Service estimated that 6 percent of all recipients, DOD-wide, were malassigned—that is, they were formally misused outside their skills. This could be documented by the service records. What could not be substantiated was an estimated additional 12 percent potentially being malused. If these figures are anywhere near accurate, this means almost one of every five selective reenlistment bonus recipients are not working in the critical skill for which he or she was paid a bonus.

In its September 1980 report, the Army Audit Agency also cited malutilization as a significant problem. In a test at five Army bases, the auditors determined that individuals receiving $8 million in reenlistment bonuses were not being used in their skill. Rates of maluse ranged between 7 and 20 percent at the installations reviewed. Auditors found bonus recipients being used as customs inspectors, recreational specialists, and as members of a local marksmanship team. The auditors further cited Army usage reports as grossly understating the problem. These reports showed maluse running at only 4 percent Army-wide.

Navy auditors have also reported problems in this area. Drawing from a sample of submariners who received reenlistment bonuses, Navy auditors recently found 59 people who had received $680,0000 in bonuses being assigned 3-year shore duty as recruiters, which is not a critically short occupation.

Recoupments of unearned bonuses.—Millions of dollars have been lost each year as a result of bonus recipients leaving the service before completing their enlistments and reenlistments. Unearned bonuses have been the subject of numerous audit reports, including recent reports by the service audit agencies and GAO. The Defense Audit Service, for example, estimated that during fiscal years 1978 through 1980 unearned bonuses totaled $12.5 million. Particularly disturbing is the fact that most unearned bonuses are never recovered. Army auditors reported

that only about 12.5 percent of these debts are collected and a review by our office a few years earlier showed an even poorer recoupment rate—6.5 percent.

It is hard to say how much of the cost growth in these bonus programs can be attributed to these types of internal management problems, but we believe that substantially lower program costs could be achieved if these problems were cleared up. We were particularly pleased to see that this committee, along with your counterparts in the House, specifically directed the Secretary of Defense to tighten up procedures for recouping unearned bonus payments. We believe that similar action on the part of the Secretary of Defense is warranted with regard to the other bonus administration problems noted by auditors and investigators over the years.

SUMMARY

Mr. Chairman, I recognize that today I have extended my remarks considerably beyond the narrow question of bonuses. But, what we have tried to present is a framework for assessing the relative worth of a particular incentive in terms of whether the incentive has the key ingredients needed to be useful as a management tool. Again, we think that for an incentive to be most useful, managers should have (1) adequate resources, (2) authority to apply the resources in a timely manner, (3) authority to make adjustments, (4) authority to target the resources to the problem areas and to stop feeding resources once the problem is well, and (5) good feedback to know if the targeting is working.

Some of the incentives we discussed today, such as the bonus programs, contain most of these key ingredients, while others, such as the proposed GI Bill, have almost none. As I have said to this subcommittee before, we firmly support the concept that, if additional money is the only answer, it should be focused on solving specific problems. We generally do not support across-the-board solutions unless the problem is truly a universal one. Both the enlistment and selective reenlistment bonus programs are "targeted" programs. However, as I have pointed out, the relative cost-effectiveness of these programs as compared to other monetary or nonmonetary incentive alternatives has not, in our opinion, been adequately tested.

It seems to us, and I believe you will agree, that at this particular juncture this committee has a unique opportunity to have a profound and long-range impact on the cost and effectiveness of military manpower. Some of the things you will be reaching judgments on over the next year include (1) whether to extend or make permanent the enlistment and reenlistment bonus authority, (2) whether a GI Bill should be enacted and, if so, what its goals and objectives should be and how it should be structured, (3) whether some of the special and incentive pays are duplicative and cost-effective in achieving their objectives, and (4) continuing questions about how military pay adjusments should be made.

To adequately evaluate the cost and effectiveness of each variable involved, and to evaluate how each variable interacts with and impacts on other variables, is indeed a very difficult job. However, the decisions you make in dealing with the services' manpower problems could ultimately determine the future affordability of our military forces. I hope that our testimony will help in making these important judgments, first by outlining the dynamic nature of the manpower problems, and second by providing a framework for testing the cost-effectiveness of the various alternatives.

We noted that the conference report accompanying the October 1981 Uniformed Services Pay Act directs the Secretary of Defense to implement a test program, using the full range of enlistment bonuses authorized, designed to test the effectiveness of various bonus levels for the new 3-year enlistment bonus authority. The conference report indicates that the test program should be designed with the same care as was taken in designing the recently completed educational assistance test program.

We fully support the need to test bonus program effectiveness and the committee's desire that the test program be carefully structured to include specific evaluation measures. We are concerned, however, that a test program patterned after the educational assistance test program may not provide the answers you are looking for. We have just recently completed a review of the educational assistance test program evaluation. Our concern with this test program is that it was not designed to measure the relative cost-effectiveness of the various

educational assistance packages as compared to other enlistment incentives—such as bonuses for example. We believe that any test of an incentive program should be designed not only to measure its effectiveness in terms of increasing the number and quality of people recruited and retained, but it should be designed to measure its *cost-effectiveness* relative to other available inducements which would achieve the same end result. Only in this way can this committee be assured that all the tradeoffs have been considered and that the incentive programs it authorizes are the least costly alternatives for achieving the desired results.

We believe that to help you reach conclusions about the reasonableness and cost-effectiveness of the various alternatives, the subcommittee should consider expanding the direction given to the Secretary of Defense in the pay bill conference report. We believe that more than one test program is needed to evaluate relative cost-effectiveness, and should be carefully structured and controlled, and include specific evaluation measures. The experiments should include different incentive devices to test their cost-effectiveness and their relative impact on recruiting and retention. The test might include different levels of enlistment and reenlistment bonuses, variations of an educational benefit, and proficiency pay. One alternative incentive that might be included in the test program would be one whereby upon enlistment an individual is given a lump-sum, which would be sheltered from use until completion of his/her enlistment contract. At that time, he/she would receive the lump-sum payment, plus interest, to be used for educational or other purposes. Such a deferred annuity scheme should be targeted, both to skill and to high-quality youth. Under this type of selective educational benefit program, the amount of the payment could be quite large and still be far less expensive than an across-the-board, universally available GI Bill.

Again, we believe that the long-range success, i.e., cost-effectiveness, of any alternative monetary incentive depends to a large extent on the ability of Defense managers to control the use of the incentive to achieve their manpower goals, not only in aggregate, but also for individual occupations and skill levels, and we believe that the next year offers a unique opportunity to make significant progress.

My testimony today has focused on the use of monetary incentives to attract and retain the quantity and quality of people the services need. However, I would like to emphasize that there are many nonmonetary management actions the services can and should pursue before reaching a conclusion that only additional money will solve the problem. We believe that service members should receive a reasonable level of pay. However, beyond that, money solutions should be applied only as a last resort, after the specific cause of a problem has been thoroughly analyzed and management actions have proven to be ineffective.

Mr. Chairman, this concludes my formal statement. My colleagues and I would be happy to respond to any questions you may have.

APPENDIX I

SELECTIVE REENLISTMENT BONUSES—PAYMENTS AND PROGRAM OUTLAYS

	Army		Navy		Marine Corps		Air Force		DOD	
	Number	Millions	Number	Millions	Number	Millions	Number	Millions	Number	Millions
Fiscal year:										
1975	21,355	$52.3	378	$0.6	2,674	$5.9	----------	0	24,407	$58.8
1976+T	31,172	71.7	369	.6	3,323	8.1	----------	0	34,864	80.4
1977	22,066	48.0	----------	0	2,653	5.5	----------	0	24,719	53.5
1978	12,296	28.4	----------	0	2,445	5.7	----------	0	14,741	34.1
1979	14,707	34.7	450	.9	3,123	7.1	----------	0	18,280	42.7
1980	14,858	39.8	1,908	3.2	3,480	7.7	----------	0	20,246	50.7
1981	18,028	57.0	6,215	9.9	2,898	7.2	2,354	2.8	29,495	76.9
1982	26,295	89.0	7,385	12.5	3,387	10.9	2,962	3.8	40,029	116.2
Total	160,777	420.9	16,705	27.7	23,983	58.1	5,316	6.6	206,781	513.3

Note: The above figures are the number of new awards each year and the dollar outlays relating to those awards. Since the method of paying bonuses has varied from time to time, these figures do not represent total entitlements or total program costs but they are reasonably close—at least for enlistment bonuses.

APPENDIX II

SELECTIVE REENLISTMENT BONUSES—PAYMENTS AND PROGRAM OUTLAYS

	Army		Navy		Marine Corps		Air Force		DOD	
	Number	Millions	Number	Millions	Number	Millions	Number	Millions	Number	Million
Fiscal year:										
1975	16,809	$42.6	14,242	$42.0	936	$2.8	8,797	$26.1	40,775	$113.5
1976+T	10,816	11.3	9,651	16.5	716	1.2	3,528	3.4	24,711	32.4
1977	12,721	12.3	9,507	16.2	1,056	1.1	2,799	2.8	26,083	32.4
1978	16,219	18.9	10,480	19.4	2,169	2.2	3,205	3.5	32,073	44.0
1979	15,116	38.0	10,323	48.3	2,496	7.8	3,954	17.3	31,889	111.4
1980	15,367	63.5	14,309	115.8	2,996	21.6	5,088	30.3	37,760	231.2
1981	23,155	124.6	22,356	259.4	9,773	79.3	16,163	74.9	71,447	538.2
1982	21,996	138.3	24,083	304.6	5,051	44.4	20,209	91.9	71,339	579.2
Total	132,190	449.5	114,951	822.2	25,193	160.4	63,743	250.2	336,077	1,682.3

Note: The figures above depict the number of new awards each year and the dollar outlays relating to those awards. These figures do not represent total entitlements or total program costs because the method of paying bonuses has varied from time to time. For example, payments in fiscal year 1975 and the 1st half of fiscal year 1976 were a mix of lump-sum and installments. Installments were the method of paying all bonuses during the 2d half of fiscal year 1976 through the 1st half of fiscal year 1979. Lump sum payments were used for all bonuses since the 2d half of fiscal year 1979. Since the above data is for new payments only, the figures are understated in terms of full program costs because they do not include payments owed as a result of using the installment method during some periods. Full program costs were readily available only for DOD (not the individual services), so we used the above data instead which probably provides fairly accurate percentage relationships among individual services in terms of their shares of program outlays.

Senator JEPSEN. We will reconvene at a later date.

Thank you for your understanding. The hearing is adjourned.

[Whereupon, at 11:50 a.m., the subcommittee was adjourned, subject to call of the Chair.]

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